

**NEW YORK CONSENSUS
FORECASTING CONFERENCE**

Hon. John A. DeFrancisco
Chairman
Senate Finance Committee
Hon. Liz Krueger
Ranking Minority Member
Senate Finance Committee

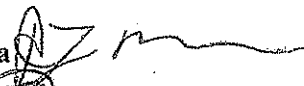


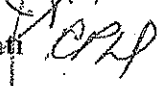
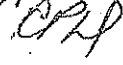
Robert L. Megna
Director
NYS Division of the Budget

Hon. Herman D. Farrell, Jr.
Chairman
Assembly Ways and Means Committee
Hon. Robert C. Oaks
Ranking Minority Member
Assembly Ways and Means Committee

MEMORANDUM

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

March 1, 2013

FROM: Robert L. Megna 
Robert Mujica 
Matthew A. Howard 
Joseph F. Pennisi 
Rebecca P. D'Agati 

SUBJECT: Consensus Forecast Report

Attached please find the 2013-14 "Consensus Economic and Revenue Forecast Report" required by Section 23 of the State Finance Law.

Attachment

ECONOMIC AND REVENUE CONSENSUS REPORT 2013-14

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) 2013-14 Budget, pursuant to the provisions of Chapter 309 of the Laws of 1996.

The Consensus Forecasting Conference was held on February 28, 2013. 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. The recovery is evident in the strengthening of several areas, including the labor market, which has been creating jobs on a monthly basis for over two years. In addition, equity market values are flirting with prerecession highs and the housing market has stabilized and is showing signs of recovery. The economy is expected to grow in 2013, albeit at a somewhat weak pace compared to historical rates. Growth is expected to accelerate in 2014. The consensus forecasts for 2013 and 2014 for real U.S. GDP growth are 1.9 percent and 2.9 percent, respectively. Growth is expected to be restrained in 2013 by multiple factors, including the expiration of the Social Security payroll tax holiday at the end of 2012 and tightening fiscal policy. The global economy is expected to improve in 2013, but remain weak. Thus, real growth in U.S. exports is not expected to provide substantial support for overall growth in 2013.

All parties expect the national labor market to continue to grow going forward. The consensus 2013 forecast is 1.5 percent, following growth of 1.7 percent in 2012. Job growth in 2013 is projected to be accompanied by faster, but still historically low, wage growth of 3.8 percent. Consensus growth in U.S. corporate profits, including the capital consumption and inventory valuation adjustments, is expected to slow in 2013 as labor costs pick up, but accelerate in 2014. Consensus growth in the Consumer Price Index for 2013 of 1.9 percent represents the expectation that inflation will remain subdued, despite continued volatility in energy prices. Monetary policy is expected to remain highly accommodative in 2013, with short-term interest rates remaining stable at historically low levels. The outlook for monetary policy for 2014 is relatively more varied.

CONSENSUS U.S. FORECAST		
CALENDAR YEAR		
Percent Change		
	CY2013	CY2014
REAL U.S. GDP	1.9	2.9
PERSONAL INCOME	2.7	5.4
WAGES	3.8	5.3
CORP PROFITS	3.8	6.2
NONFARM EMPLOYMENT	1.5	1.8
3-MONTH T-BILL RATE	0.1	0.2
CPI	1.9	1.9

All parties acknowledge that in anticipation of rising Federal tax rates for high-income taxpayers as of January 1, 2013, many employers likely shifted the payment of wages, particularly bonus payouts, from the first quarter of 2013 to the final quarter of 2012. In addition, toward the end of last year, many large corporations announced either accelerated dividend payouts or one-time special dividend payments to shareholders. Assumptions surrounding the magnitude of that shift vary substantially across the various forecasts, resulting in projections for 2012 wage growth ranging from 2.0 percent to 3.4 percent. 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 New York State labor market will remain healthy, with the 2012-13 consensus forecast of 1.3 percent moderating only slightly to 1.2 percent in 2013-14. The State's business services and tourism industries are expected to continue to exhibit strong growth, while finance and government sector restructuring present risks going forward. The consensus forecast for 2012-13 wage growth is 2.6 percent, representing acceleration from 2011-12. Wage growth projections for 2012-13 range from 1.2 percent to 3.1 percent, with the variation across parties pertaining largely to differing assumptions regarding the strength of finance and insurance sector bonuses; some of the variation is also due to the use of alternative data sources. The consensus forecast for 2013-14 wage growth is a higher 4.5 percent. The consensus forecast for 2012-13 personal income growth is 2.9 percent, with projections ranging from 2.3 percent to 3.4 percent, with the variation largely due to the same factors affecting wages. Personal income growth is expected to accelerate to 4.0 percent in 2013-14.

CONSENSUS N.Y. FORECAST		
FISCAL YEAR		
Percent Change		
	FY2012-13	FY2013-14
NONFARM EMPLOYMENT	1.3	1.2
PERSONAL INCOME	2.9	4.0
WAGES	2.6	4.5

Risks to the economic outlook remain, stemming from uncertainty surrounding federal fiscal policy, particularly the sequester, elevated oil and gasoline prices, and the impact of the recession in the Euro-zone. Sources of upside risk include stronger than expected labor and

housing market growth. 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. This uncertainty is augmented by the impact of changes in Federal tax policy on taxpayer behavior. Finally, should the Federal Reserve shift to a less accommodative policy stance earlier than expected, financial market activity could slow more than anticipated.

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 a consensus on a two-year revenue total that is \$200 million above the Executive Budget estimate and also agreed on the importance of continuing to monitor the State's fiscal condition. Uncertainty surrounding the strength of the recovery, the degree of income shifting from early 2013 into late 2012, 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. 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:

- the degree to which corporate profits translate into increased corporate tax receipts;
- the degree to which employment, wage, non-wage income, and capital gains growth exceed expectations;
- the degree to which the post-Sandy rebuilding and recovery efforts translate into associated revenue; and
- the portion of recent real estate activity that is timing related due to anticipated higher federal tax rates versus the portion that is recurring.