THE ASSEMBLY
STATE OF NEW YORK
ALBANY

February 25, 2014

Dear Colleagues:

I am pleased to provide you with the New York State Assembly Ways and Means Committee's Economic Report for 2014. This report continues our commitment to providing clear and accurate information to the public by offering a complete and detailed overview of the outlooks for the national and State economies. The economic analysis and forecasts presented in this report are vital to the State's budget process as spending and tax trends are heavily impacted by economic conditions.

Though strengthening, economic growth remains subdued. The Committee staff forecasts a slow, but steady improvement in employment and personal income in 2014 and 2015 for both the nation and the State. While personal income growth is forecast to further improve, growth rates will remain below the historical trend; this is in part due to the scaling back of bonus payments on Wall Street compared to the boom years leading up to the recent recession.

The Ways and Means Committee staff's assessments and projections presented in this report are evaluated by an independent panel of economists. Assembly Speaker Sheldon Silver and I would like to express our appreciation to the members of this Board of Economic Advisors. Their commitment and expert judgment continue to be invaluable in helping to refine and improve our forecasts. While they have served to make the work of our staff the best in the State, they are not responsible for the numbers or views expressed in this document.

I wish to also acknowledge the dedicated and talented staff of the Assembly Ways and Means Committee and the many hours of work that went into producing this report. They play a vital role in our State's budget process.

As we continue our efforts toward enacting an on-time budget that is fair and equitable for all New Yorkers, I look forward to working with each of you.

Sincerely,

Herman D. Farrell, Jr.
Chairman
Assembly Ways and Means Committee

NEW YORK STATE

ECONOMIC REPORT

February 2014

Sheldon Silver
Speaker
New York State Assembly

Herman D. Farrell, Jr.
Chairman
Assembly Ways and Means Committee

Prepared by the
Assembly Ways and Means Committee Staff

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Executive Summary

EXECUTIVE SUMMARY

United States

- The NYS Assembly Ways and Means Committee staff's forecast for **overall national economic growth** in 2014 is 2.7 percent. The staff's forecast is equal to the Division of Budget and Global Insight. The staff's forecast is 0.2 percentage point below the Blue Chip Consensus and Macroeconomic Advisers, and 0.4 percentage point below Moody's Economy.com.

U.S. Real GDP Forecast Comparison (Percent Change)

	Actual 2012	Forecast 2013	Forecast 2014	Forecast 2015
Ways and Means	2.8	1.9	2.7	3.1
Division of the Budget	2.8	1.9	2.7	2.9
Blue Chip Consensus	2.8	1.9	2.9	3.0
Moody's Economy.com	2.8	1.9	3.1	4.1
Macroeconomic Advisers	2.8	1.9	2.9	3.1
IHS Global Insight	2.8	1.9	2.7	3.3

Sources: NYS Assembly Ways and Means Committee staff; NYS Division of Budget, FY 2014-15 Executive Budget, January 2014; Blue Chip Economic Indicators, February 2014; Moody's Economy.com, February 2014; Macroeconomic Advisers LLC, February 2014; IHS Global Insight, February 2014.

- Despite some short-term factors weighing on economic recovery, recent gains in output and employment are expected to continue during the next two years, supported by improving fundamentals. The **U.S. economy** is forecast to grow by 3.1 percent in 2015.

- Adjusted for inflation, **personal consumption spending** grew an estimated 2.0 percent in 2013, following growth of 2.2 percent in 2012. Though growth in consumer spending slowed, much of the growth was attributed to an improvement in households' wealth, relatively low inflation that boosted disposable income, the easing of credit standards, improved consumer sentiment, and some gains in employment. The effects of higher taxes, sequestration, and consumer deleveraging are expected to gradually diminish over the forecast period. Low interest rates, though rising, will facilitate additional spending on motor vehicles and home purchases. As a result, consumer spending is projected to increase 2.7 percent in 2014 and 3.0 percent in 2015.

- **Investment spending** growth is forecast to accelerate to 5.6 percent in 2014 and 7.6 percent in 2015 as spending on intellectual property products, equipment, and structures strengthen.

- Although housing affordability is likely to fall, the housing market outlook remains positive. Activities in the **housing market** are expected to continue to improve as the economy continues to recover. However, the speed of improvement will rely heavily on employment and wage growth.

- The decline in **total government spending** continued in 2012 but at a much more gradual pace than in 2011. Spending cuts in 2012 moderated as the falloff in state and local government spending slowed and an increase in federal nondefense spending dampened the acceleration in federal defense spending cuts. In 2013, total government spending, adjusted for inflation is estimated to have decreased 2.2 percent and is forecast to fall another 1.0 percent in 2014 driven mainly by spending cuts by the federal government. As the federal government contends with lowering the nation's deficit, federal government spending cuts are expected to persist. In contrast, state and local government spending is anticipated to expand as revenues improve. Hence, total government spending is projected to decrease only 0.1 percent in 2015.

- **Exports** are estimated to have grown by 2.8 percent in 2013, compared to 1.4 percent growth for imports. As both the world and U.S. economies are projected to grow at a faster pace throughout the forecast period, both exports and imports are expected to grow faster. Exports are forecast to grow by 5.2 percent in 2014 and another 5.1 percent in 2015. **Imports** are expected to increase by 3.8 percent in 2014 before rising further by 5.7 percent in 2015.

- Although several economic indicators have reached or surpassed their pre-recession levels, total nonfarm **employment** remained 866,000 below the pre-recession peak as of January 2014. The employment recovery remains far slower than the pace of employment recoveries following other recessions. The forecast of U.S. employment shows a profile of continuing employment growth in 2014 and 2015. After growing 1.7 percent in 2013, employment is forecast to grow 1.7 percent year-over-year in 2014, and 1.9 percent in 2015. It is expected that there will be 2.3 million jobs added to the economy in 2014.

- In 2014, **personal income** is projected to grow 4.3 percent as economic fundamentals strengthen. As the economy continues to improve in 2015, gains in employment, higher interest rates, the expectation of higher wages, and a more profitable business environment will encourage projected growth in personal income of 4.9 percent.

- In 2014 and 2015, **consumer prices** are expected to grow, but at the relatively slow pace of 1.6 percent in 2014 and 1.9 percent in 2015. Throughout the forecast period, it is likely that downward pressure from the slack in the labor market and growth in productivity will prevail, keeping inflation somewhat low.
- **Corporate profits** are forecast to grow 5.9 percent in 2014 and 5.6 percent in 2015 as productivity and sales continue to improve, while wage growth remains modest.
- The stock market is expected to continue to gain throughout the forecast period. The **S&P 500** averaged 1,642.5 points in 2013, a growth of 19.1 percent from 2012. As the economy continues to improve, the index is forecast to grow further by 12.1 percent in 2014 and another 3.6 percent in 2015.
- As the global economy is anticipated to recover at a stronger pace, investors are likely to shift their investment further away from bonds to seek higher returns. Whereas extra demand for bonds, a result of quantitative easing policies, will eventually dissipate, bond yields are expected to rise throughout the forecast period. The **10-year Treasury rate** averaged 2.4 percent in 2013, and is forecast to increase to 3.0 percent in 2014 and 3.4 percent in 2015.

New York State

- As the economy improves, employment in both New York State and the nation is forecast to continue to grow. However, as states that lost a significant number of jobs regain employment, **employment growth in New York State** is expected to lag the nation once again. Total nonfarm employment in the State is estimated to have grown 1.1 percent in 2013, compared to 1.7 percent nationwide. Nonfarm employment is forecast to grow at 1.2 percent in 2014 and 1.3 percent in 2015, while national employment is forecast to grow 1.7 percent and 1.9 percent, respectively. The NYS Assembly Ways and Means Committee staff's forecast for total nonfarm payroll employment growth in 2014 is equal to the Division of Budget forecast.
- On a calendar year basis, total **New York State wages** are forecast to grow 4.6 percent in 2014 and 4.7 percent in 2015. While these numbers represent solid growth, they are still below the growth rates achieved leading up to the most recent recession and during the late 1990s. This is primarily due to lower variable wages. The staff's forecast for 2014 wage growth is 0.8 percentage point below the Division of Budget forecast.

New York State Forecast Comparison (Percent Change)			
	Estimate 2013	Forecast 2014	Forecast 2015
Employment			
Ways and Means	1.1	1.2	1.3
Division of the Budget	1.2	1.2	1.2
Wages			
Ways and Means	1.6	4.6	4.7
Division of the Budget	1.6	5.4	4.6

Sources: NYS Assembly Ways and Means Committee staff; NYS Division of Budget, FY 2014-15 Executive Budget, January 2014.

- **Capital gains** grew $75.7 billion or by 55.1 percent in 2012, partly attributed to the gains that were shifted from 2013 to 2012 in anticipation of an increase in capital gains taxes in 2013. Historical data suggests that investors are inclined to take gains when anticipating higher tax rates in the future. In addition, in 2012 the prices of corporate equity and mutual funds shares grew strongly, while home prices in the State fell. In 2013, capital gains are estimated to have fallen by 15.8 percent to $63.7 billion as a consequence of the shift. With home prices expected to appreciate and equity prices likely to accelerate, taxable capital gains are forecast to grow by 13.3 percent to $72.2 billion in 2014 and by 9.0 percent to $78.7 billion in 2015.

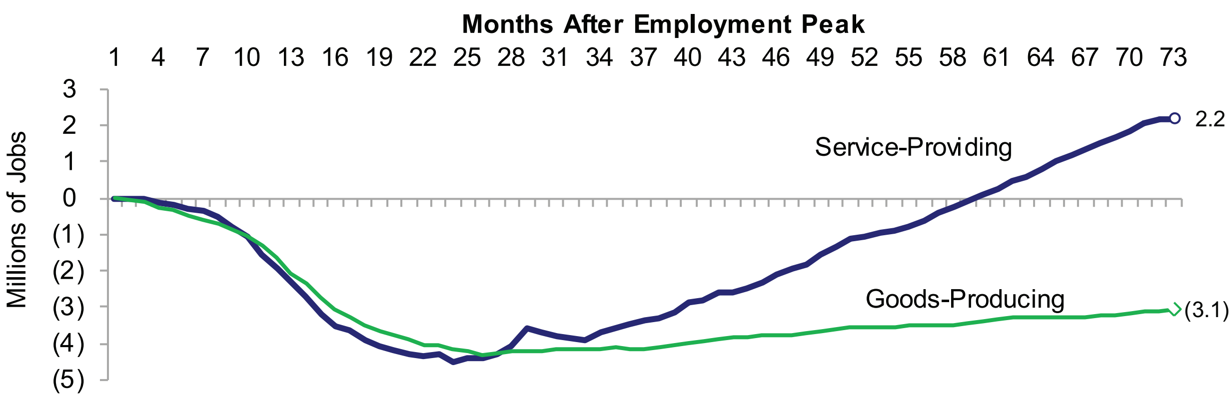
United States Forecast

UNITED STATES FORECAST

The 2013 comprehensive revision of U.S. National Income and Product Accounts showed that the national economy grew 2.8 percent in 2012, 0.6 percentage point faster than initially estimated. It was the best yearly growth rate since the most recent recession ended in 2009. This performance was encouraging because it came despite the negative impact from the government sector. Output in the private sector posted 3.7 percent growth during 2012, faster than the 3.2 percent pace seen in 2011.

Though strengthening, the economic recovery is still fragile. Economic growth slowed significantly during 2013 as tax increases and automatic spending cuts weighed on consumers and businesses. The pace of payroll job creation has also slowed from a monthly average gain of 204,000 in the first half of 2013 to 173,000 per month since then. Total employment in the goods-producing sector was still 3.1 million jobs below the January 2008 level as of January 2014.[1] It is in sharp contrast with the service-providing sector that had 2.2 million more jobs in that month, compared to the pre-recession peak level (see Figure 1). This is important because many of the jobs gained in the service-providing sector are relatively lower-paying, leading to lower income growth. Also, although the rate of unemployment has been trending downward, the increasing number of people who have dropped out of the labor force (the so-called discouraged workers), instead of people who have found jobs, has been an important contributing factor to the declining unemployment rate.

Cumulative Employment Change by Sector



Note: Cumulative change is as compared to January 2008, the peak of total nonfarm employment prior to the most recent recession. Data is monthly through January 2014.
Source: U.S. Bureau of Labor Statistics.

Figure 1

[1] The goods-producing sector consists of manufacturing, construction, and mining and natural resources.

Even though pent-up demand has helped consumer spending to increase in recent quarters, the increase has been more or less limited to spending on durables such as automobiles and electronics at the expense of spending on services and nondurables. Those two components of consumer spending, which account for more than 80 percent of total consumer spending, grew only 1.5 percent and 2.1 percent, respectively, on a quarterly average basis, since the second quarter of 2009. This pace of recovery is significantly lower than seen during earlier recovery periods.

In the housing market, low interest rates have supported a significant improvement in the past several quarters; however, the recovery has lost some momentum due to supply restraints as well as rising interest rates in the midst of speculations about the Fed's policy change. Although unlikely to stall, the housing recovery may be negatively impacted by rising rates at least in the short run if borrowers fail to adapt quickly to the changing environment.

Brazil, India, China and other emerging market economies, after a decade of surging growth, have slowed sharply in the past couple of years. In China, economic growth has slowed from double-digit rates to a mid-seven percent range, since growth in loans and exports started slowing in 2010. The slower growth in China is likely to persist through the forecast period as a result of the policy shift that is focused on "rebalancing" the economy toward a consumer-driven model from an investment-led one. More recently, the currencies of Argentina, Mexico, Brazil, India, and Turkey have been rattled by capital outflows, endangering the fragile economic growth.

Although there is some gradual improvement in state and local government finances, the federal government continues to tighten its spending. Overall, the public sector as a whole will continue to be a drag on economic growth during 2014.

Despite the short-term factors weighing on the economic recovery, further gains in output are expected to continue during the next two years, supported by improving fundamentals. Slow yet steady improvement in employment and income will help the recovery in personal consumption spending to continue. The improving financial positions of households will also support consumer spending growth in the coming months. The household financial obligation ratio is the lowest in more than 30 years, indicating that a bigger share of household income will be available for purchases of goods and services. The household debt to disposable income ratio has also steadily been coming down after peaking in 2007 (see Figure 2). As of the third quarter of 2012, household net worth exceeded the 2007 pre-recession peak level and this is poised to have further positive wealth effects on consumer spending. With the delinquency rates on consumer loans at the lowest in 25 years, more banks have been reporting increased willingness to make loans to consumers.

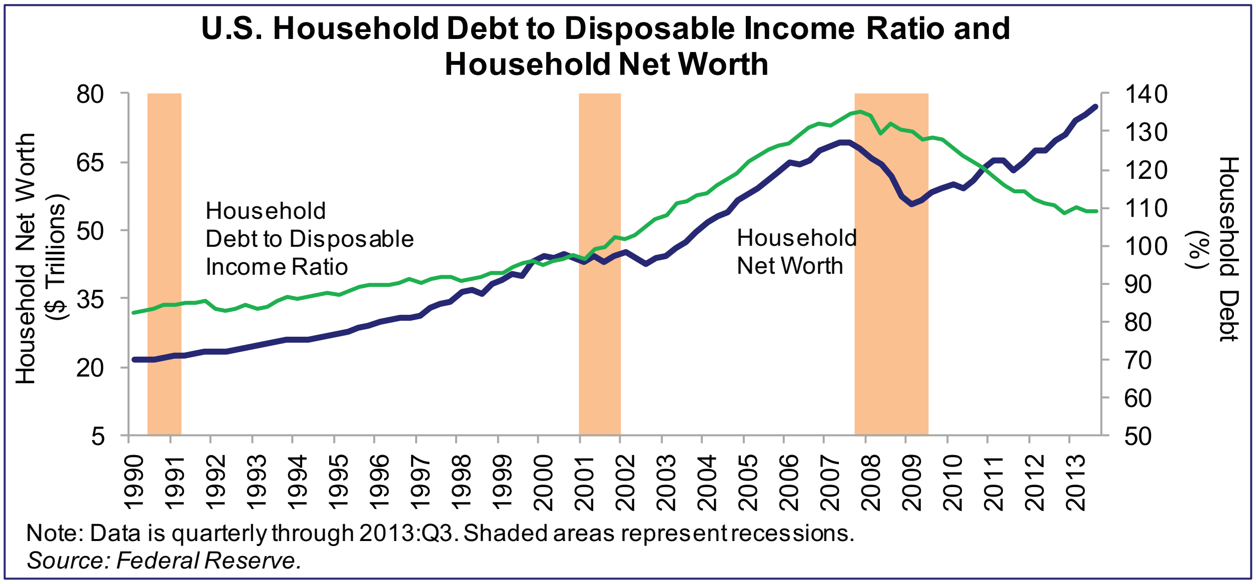


Figure 2

In addition, business spending on equipment and intellectual property products such as software and research and development is expected to be supported by strong corporate profits and favorable financial conditions. Also, attempts by businesses to keep ahead of global competition will help drive business capital spending. Surging sentiment among homebuilders, increasing household formations (although softening in recent months), and less tightening in loan standards are expected to drive continued recovery in residential construction activity. Economic conditions in the rest of the world seem to be stabilizing, although global economic growth is likely to stay at lower rates than it was a few years ago. Economic growth was still negative in Italy and Greece as late as in the third quarter of 2013, but overall economic conditions are stabilizing in Europe; which is a step closer to coming out of recession. With the global economy expected to stabilize and recover, foreign demand for U.S. exports will likely pick up some steam during the next two years.

Against this backdrop, the U.S. economy is projected to grow at a faster pace during 2014 than during 2013. GDP will grow 2.7 percent in 2014, a rate close to the trend growth rate. With fundamentals expected to improve further and policy uncertainties to be reduced, economic growth is expected to accelerate to 3.1 percent in 2015 (see Figure 3).

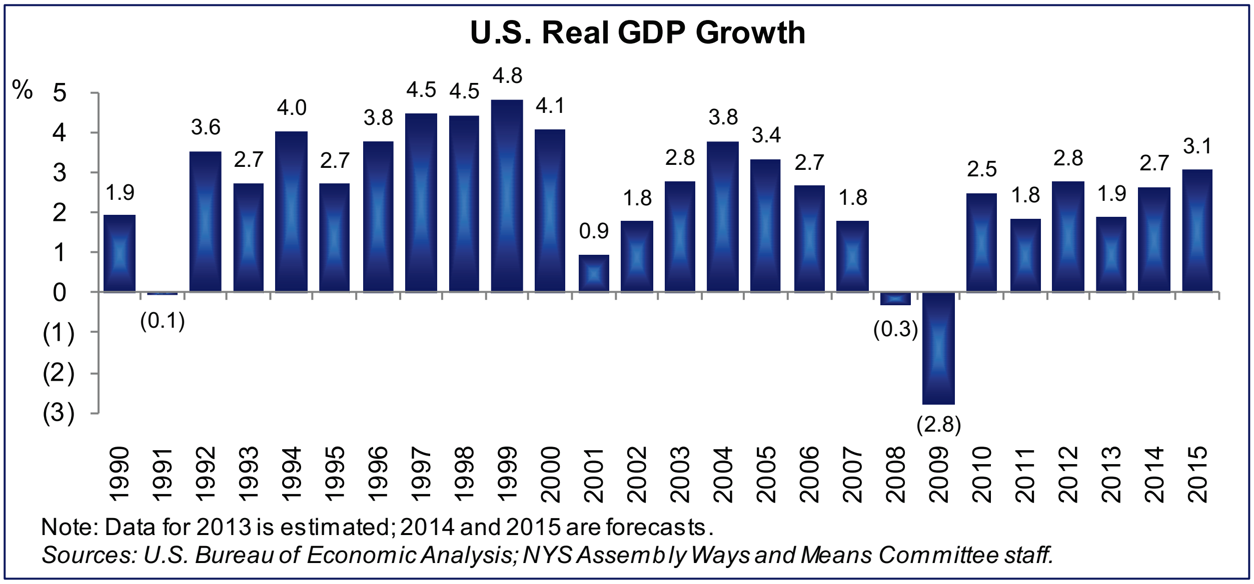


Figure 3

After losing 8.7 million jobs during the Great Recession, U.S. firms have been cautious in hiring. Faced with not only uncertain demand for their products but also the intensifying global forces of competition, U.S. firms continue to look for ways to economize on costs. The fact that business spending on equipment and software has increased at a faster rate since the end of the most recent recession than during earlier recovery periods may reflect their efforts to substitute capital input for labor input in the production processes (see Figure 4). Between 2009 and 2012, business spending on equipment and software increased 9.8 percent per year,

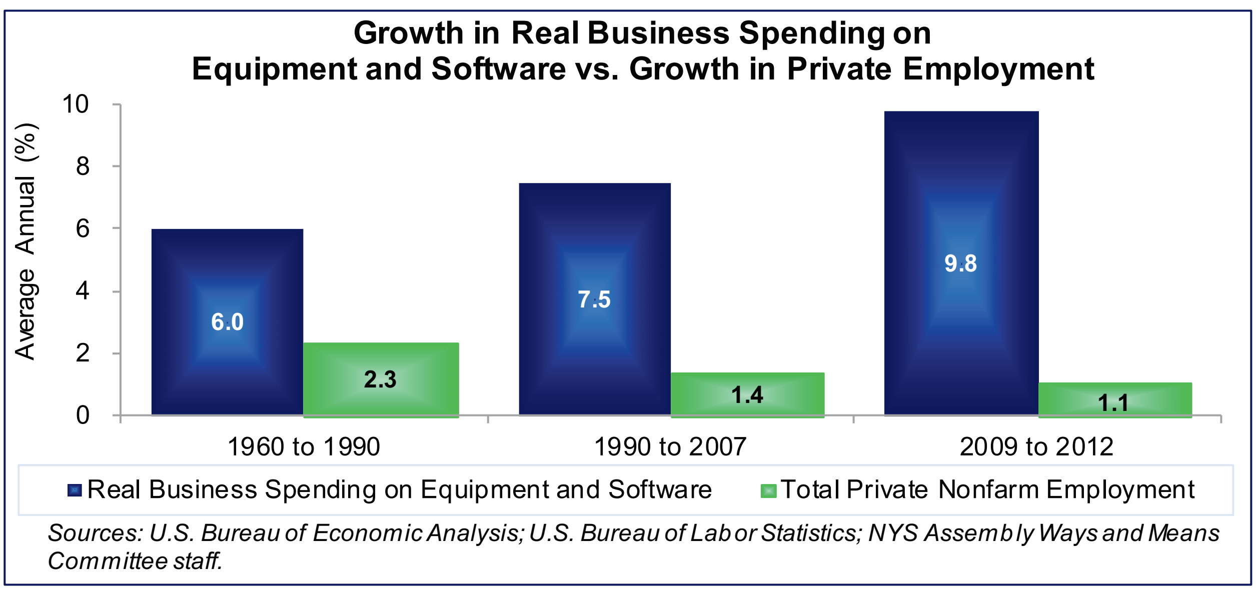


Figure 4

while employment in the private sector grew only 1.1 percent. Given this cost-saving trend, the pace of recovery in U.S. payroll employment is likely to remain relatively slow. Nonetheless, with 203,200 jobs per month on average expected to be created during 2014, the U.S. economy will reach the pre-recession employment peak level in the third quarter of 2014. With economic growth expected to increase even further, an average monthly net gain of 231,700 jobs is forecast during 2015.

Inflation rates are well below the Federal Reserve's target rate of 2 percent. The slack in the labor market and the recent trend in labor costs indicate that inflationary pressures from the labor market are minimal. In addition, the rising dollar value will help neutralize some of the worries related to the potential inflationary effects of the monetization of U.S. national debts. These inflation-stabilizing forces will largely remain in place in the next two years, helping to keep inflationary pressures in check. The Consumer Price Index (CPI) is forecast to advance 1.6 percent in 2014, after rising 1.5 percent in 2013. As economic growth is expected to accelerate in 2015, the CPI is forecast to gain another 1.9 percent in 2015 (see Table 1).

Table 1

U.S. Economic Outlook
(Percent Change)

	Actual 2011	Actual 2012	Estimate 2013	Forecast 2014	Forecast 2015
Real GDP	1.8	2.8	1.9	2.7	3.1
Consumption	2.5	2.2	2.0	2.7	3.0
Investment	4.9	9.5	5.2	5.6	7.6
Exports	7.1	3.5	2.8	5.2	5.1
Imports	4.9	2.2	1.4	3.8	5.7
Government	(3.2)	(1.0)	(2.2)	(1.0)	(0.1)
Federal	(2.6)	(1.4)	(5.1)	(3.1)	(1.5)
State and Local	(3.6)	(0.7)	(0.2)	0.4	0.8
Personal Income	6.1	4.2	2.8	4.3	4.9
Wages & Salaries	4.1	4.3	3.0	4.0	4.9
Corporate Profits	7.9	7.0	4.3	5.9	5.6
Productivity	0.5	1.5	0.6	2.0	2.1
Employment	1.2	1.7	1.7	1.7	1.9
Unemployment Rate*	9.0	8.1	7.4	6.4	5.9
CPI-Urban	3.1	2.1	1.5	1.6	1.9
S&P 500 Stock Price	11.4	8.7	19.1	12.1	3.6
Treasury Bill Rate (3-month)*	0.1	0.1	0.1	0.1	0.3
Treasury Note Rate (10-year)*	2.8	1.8	2.4	3.0	3.4

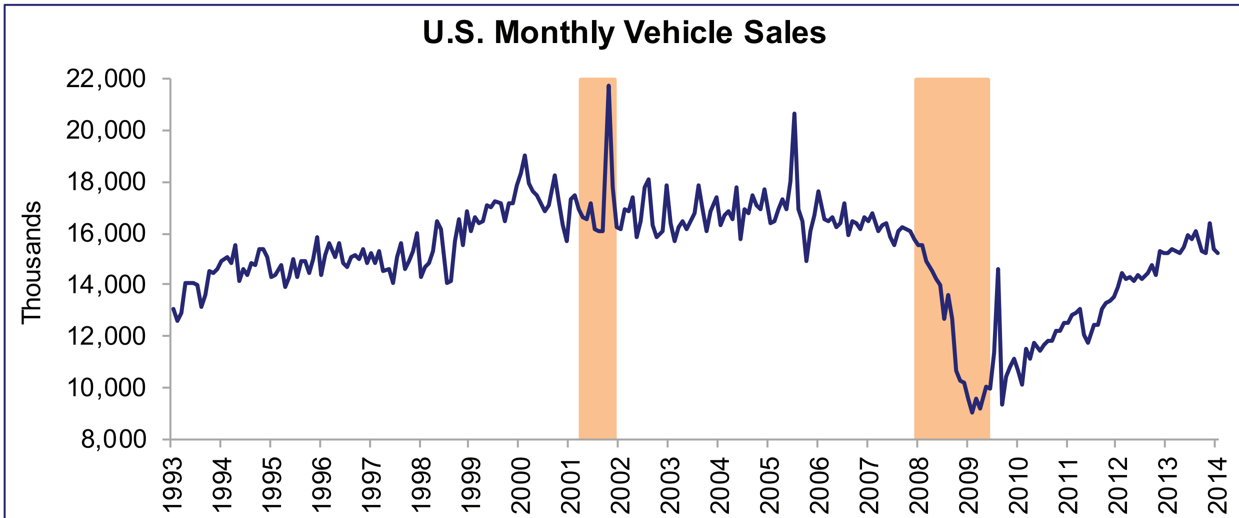
* Annual average rate.

Note: Personal income and corporate profits growth rates are based on nominal values.

Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Federal Reserve; Standard & Poor's; NYS Assembly Ways and Means Committee staff.

Consumption

Adjusted for inflation, personal consumption spending grew 2.2 percent in 2012 after an increase of 2.5 percent in 2011. Although consumption spending slowed, much of the spending by consumers was attributed to an improvement in households' wealth, relatively low inflation that boosted disposable income, the easing of credit standards, improved consumer sentiment, and some gains in employment. Strong sales in motor vehicles, fostered by low interest rates, contributed significantly to personal consumption spending in 2012, and are expected to contribute further to consumer spending growth over the forecast period (see Figure 5).



Note: Data is seasonally adjusted at an annual rate (SAAR) and is monthly through January 2014. Shaded areas represent recessions.
Source: AutoData.

Figure 5

The second quarter of 2013 marked the fourth year since the most recent recession officially ended. Despite steady gains in personal consumption spending in those years, growth continued to be subdued compared to the pre-crisis rates. Since the expansion began in the second quarter of 2009, consumer spending has only grown at an average rate of 2.2 percent per quarter (see Table 2). In contrast, consumer spending grew at an average quarterly rate of 2.9 percent during the 2002-07 expansion. The slow recovery in consumer spending stems from weakness in spending on nondurable goods and services.[2] Both components account for more

[2] The slower pace of spending on services was caused by restrained spending on housing and utilities, health care, recreational services, transportation services, financial services and insurance, and other services—all of which had lower growth rates since the expansion period of the most recent recession began than the expansion period immediately following the 2001 recession. The only component of spending on services that grew faster was food

than 80 percent of total personal consumer spending. These components have grown slower compared to expansion periods prior to the fourth quarter of 2007. The lower rate of growth is partly attributable to weak growth in real disposable income, which has grown only 1.5 percent since the second quarter of 2009 compared to 2.8 percent over the expansion period before the Great Recession. On the other hand, spending on durable goods has surpassed its pre-recession growth rate, in part due to low interest rates and the unbridling of pent-up demand.

Table 2

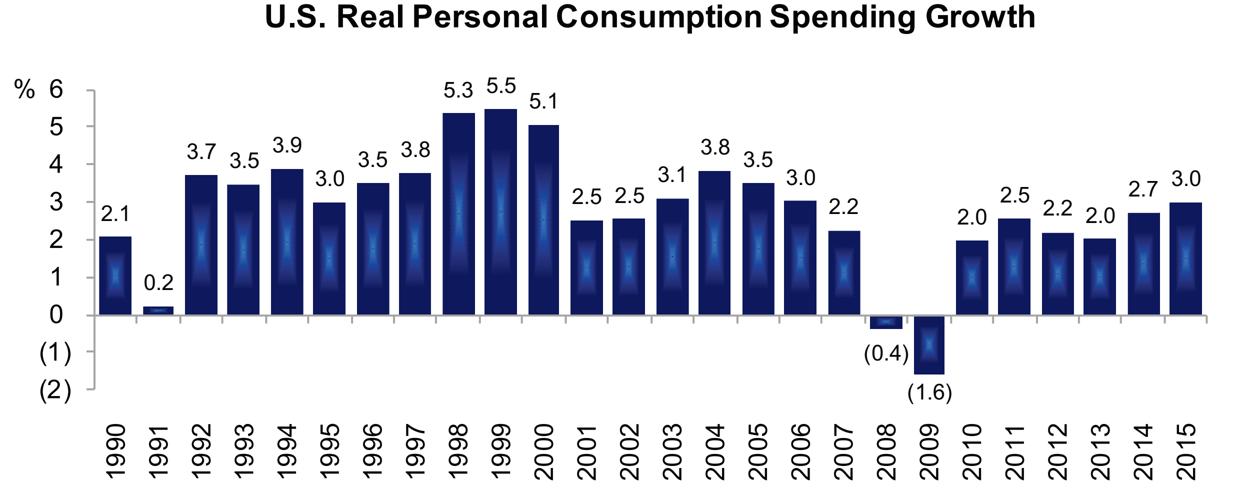
Real U.S. Personal Consumption Spending Recovery		
	2001:Q4 - 2007:Q4	**2009:Q2 - 2013:Q4**
Total Consumption	2.9	2.2
Durable Goods	5.2	7.2
Nondurable Goods	2.6	2.1
Services	2.5	1.5
Treasury 10-year	4.4	2.7
Real Disposable Income	2.8	1.5

Note: Numbers are average quarterly growth rates. The interest rate on 10-year Treasury securities is the average rate over the specified period.
Sources: U.S. Bureau of Economic Analysis; Federal Reserve; NYS Assembly Ways and Means Committee staff.

In 2013, consumer spending grew an estimated 2.0 percent as relatively low inflation, low interest rates, accelerated spending on automobiles, and rising wealth supported consumer spending growth (see Figure 6). However, consumer spending was tempered somewhat by households' continued deleveraging. Even though many of the factors contributing to a slow spending recovery from prior years persist, the main factors contributing to the slowdown in consumer spending growth in 2013 were the higher taxes that households faced with the expiration of the Social Security payroll tax cuts, higher taxes that were levied on high income households, higher taxes on capital gains as a result of the Affordable Care Act, and the impact of sequestration, especially on employment.[3] Higher tax rates tend to moderate disposable income, discouraging spending.

services and accommodations. Spending on gasoline and other energy goods, food purchased for consumption at home, and components of spending on nondurable goods are particularly more sluggish in the current expansion period compared to the expansion period following the 2001 recession.

[3] Taxes on unearned income, including dividend and capital gains, rose by 3.8 percent at the beginning of 2013 as a result of a provision in the Affordable Care Act to help fund health care. With the expiration of the Bush tax cuts, higher income households saw their income tax rates increased. See *The Patient Protection and Affordable Care*



Note: Data for 2013 is estimated; 2014 and 2015 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 6

The effects of higher taxes, sequestration, and consumer deleveraging are expected to gradually diminish over the forecast period. Low interest rates, though increasing, will facilitate additional spending on motor vehicles and home purchases. Additional improvement in the housing market will lead to more spending on goods and services related to home purchasing. As the overall economy continues to improve, credit conditions will ease further and employment prospects become better. More significantly, provisions in the Affordable Care Act, such as the implementation of health insurance marketplaces by states and the expansion of eligibility to low-income non-elderly adults for Medicaid by each state if they opt to, are expected to foster spending on health care services over the forecast period.[4] As a result, consumer spending is projected to increase 2.7 percent in 2014 and 3.0 percent in 2015.

In the third quarter of 2012, the net worth of households surpassed the pre-recession peak reached in the third quarter of 2007. Households had lost more than $13.4 trillion in wealth between the third quarter of 2007 and the first quarter of 2009. Most of the gains in wealth have come from financial assets, such as corporate equities, pension fund reserves, and mutual fund shares. Holdings in non-financial assets are still $2.6 trillion below their 2006 fourth quarter peak as of the third quarter of 2013 mainly due to weak home prices. Household real estate wealth is still $3.4 trillion below its fourth quarter 2006 peak after losing $6.9 trillion

Act, Public Law 111-148, 111th Congress, March 23, 2010; and *The American Tax Relief Act of 2012,* Public Law 112-240, 112th Congress, January 2, 2013.

[4] The Affordable Care Act expanded eligibility for Medicaid to non-elderly adults whose incomes were below 138 percent of the federal poverty guidelines.

between the peak and the second quarter of 2011 (see Figure 7). Hence, the segment of the population who derived their net worth from real estate continues to feel the impact of a slow mending housing market, and their balance sheets remain precarious. However, persistent increases in home prices bode well for the dynamics of net worth, which is favorable to consumer spending.

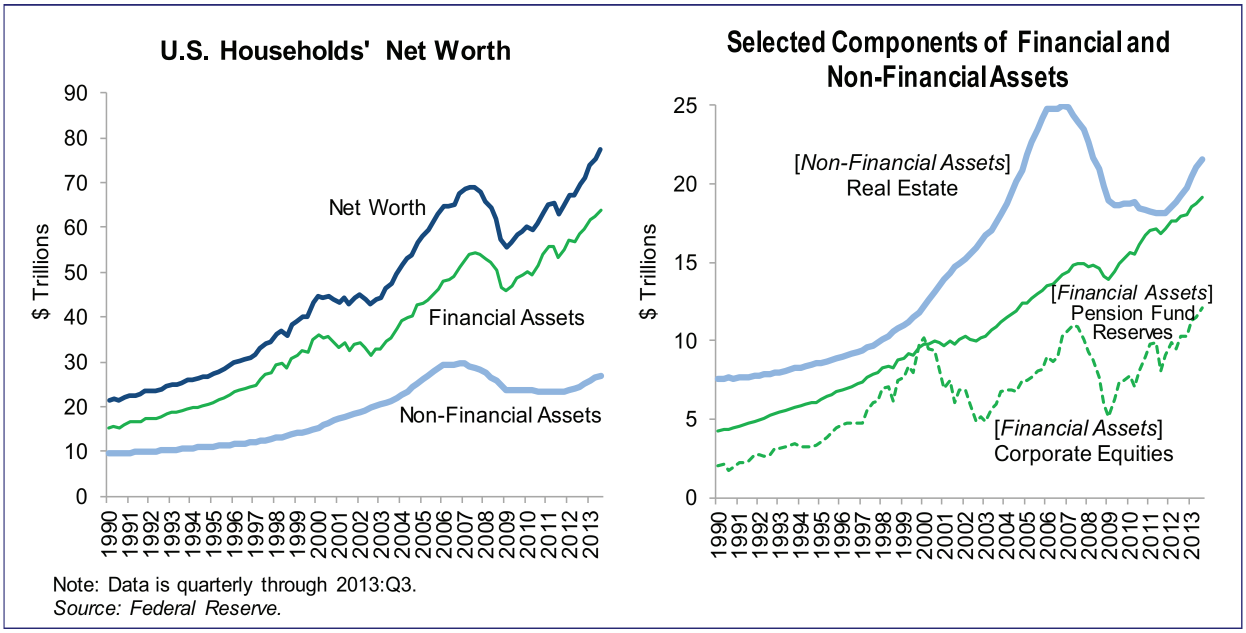
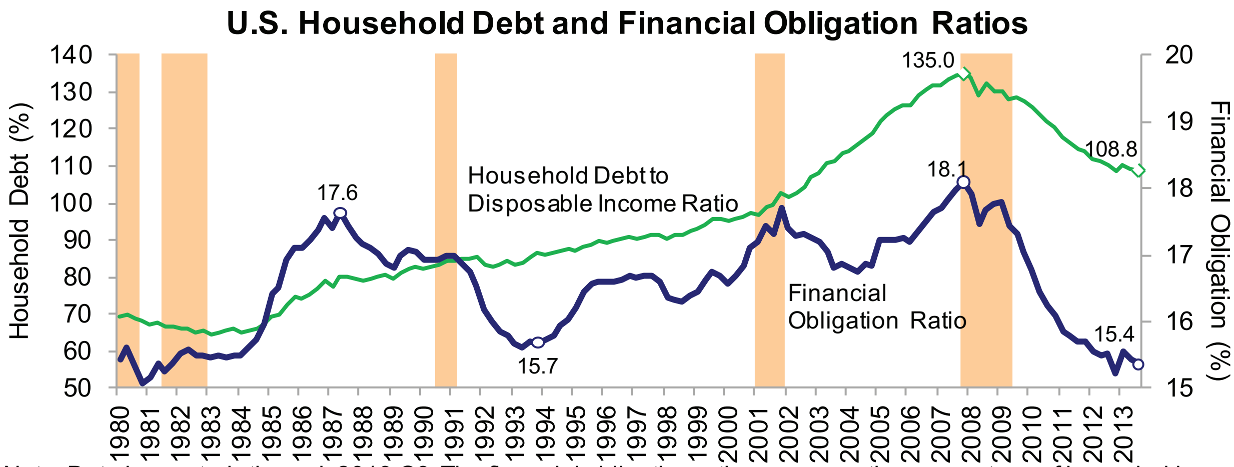


Figure 7

Households reduced their debt significantly after it peaked at 135.0 percent of disposable income in the fourth quarter of 2007. As a result, the financial obligation ratio, which measures the percent of household disposable income obligated to debt payment, has fallen to its lowest level in thirty years (see Figure 8). The financial obligation ratio declined sharply from its peak in the fourth quarter of 2007 of 18.1 percent as households lowered their debt and interest rates fell. As households' debts fall, less disposable income is required to be set aside for debt payments; but with households' debt burden still high many households will continue to deleverage. This divergence will wane overtime, and lower household debt will solidify a better financial future for consumers which will support their spending.

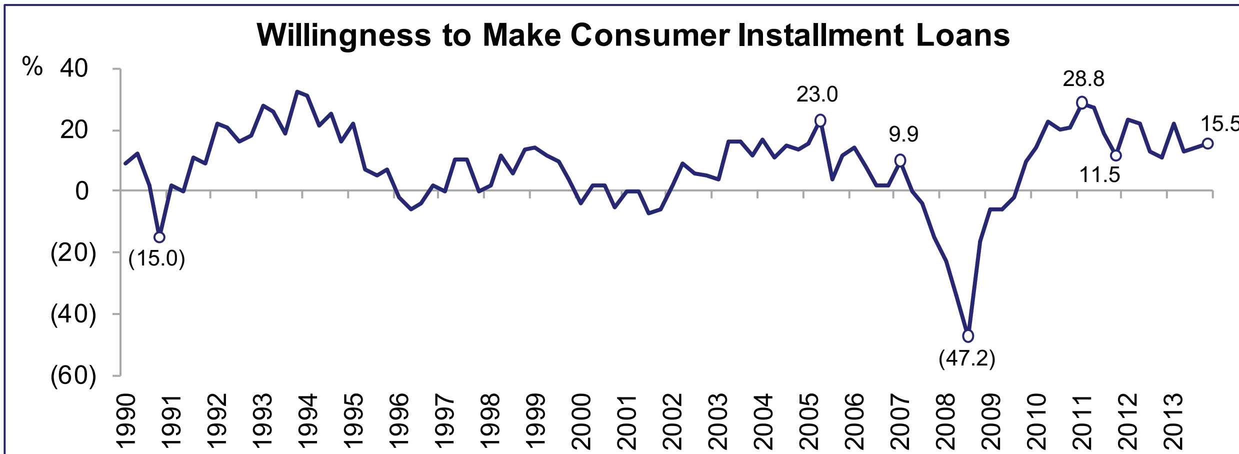


Note: Data is quarterly through 2013:Q3. The financial obligation ratio measures the percentage of household disposable income obligated to debt payment. Household debt ratio is total debt as a percentage of disposable income.

Source: Federal Reserve .

Figure 8

Despite banks' willingness to make loans to households improving since drastically falling between the second quarter of 2007 and the fourth quarter of 2008 (see Figure 9), and the demand for all consumer loans increasing, especially for auto loans and home loans, consumer loan terms remain tight relative to those prior to the most recent recession.[5]



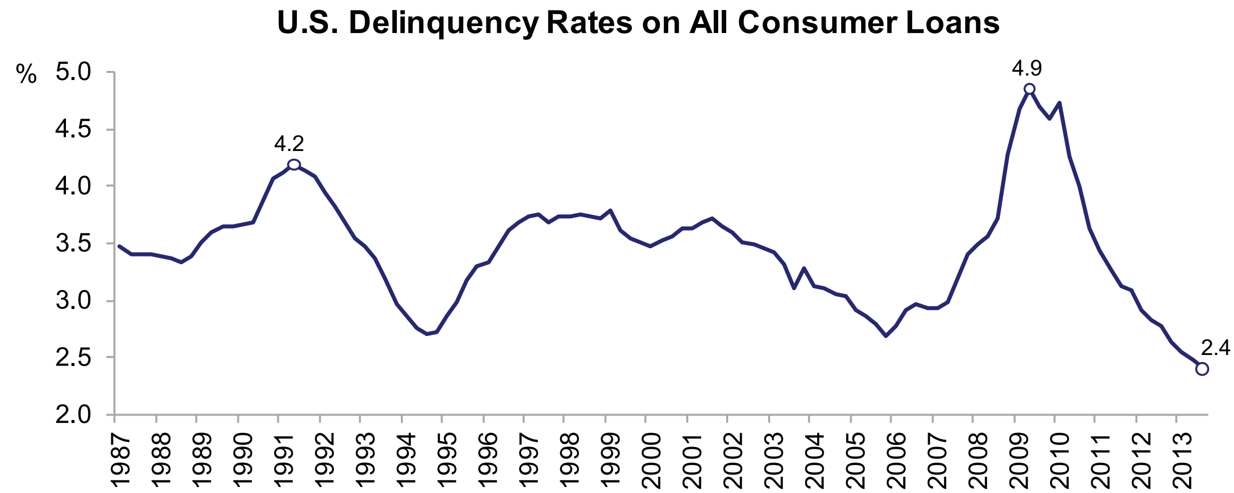
Note: Data is quarterly through 2014:Q1. Bank data was taken from a survey of approximately fifty to sixty-eight domestic banks and nineteen to twenty-eight U.S. branches and agencies of foreign banks. The percentage is the fraction of banks that reported increased willingness to make consumer installment loans from the previous three months.

Source: Federal Reserve.

Figure 9

[5] The Federal Reserve, "The January 2014 Senior Loan Officer Survey on Bank Lending Practices," Board of Governors of the Federal Reserve System, Washington, D.C., February 2014, http://www.federal reserve.gov/ boarddocs/snloansurvey/201402/fullreport.pdf.

Although banks are still wary of lending to prospective borrowers with less than stellar credit histories, certain large banks have loosened some of the more stringent lending requirements as mortgage rates have inched up.[6] Further easing of credit conditions is anticipated as delinquency rates continue to fall and the economy recovers. The delinquency rate for all consumer loans fell to a historical low in the third quarter of 2013 (see Figure 10). Hence, consumer spending will profit from the continued easing of loan standards by banks.

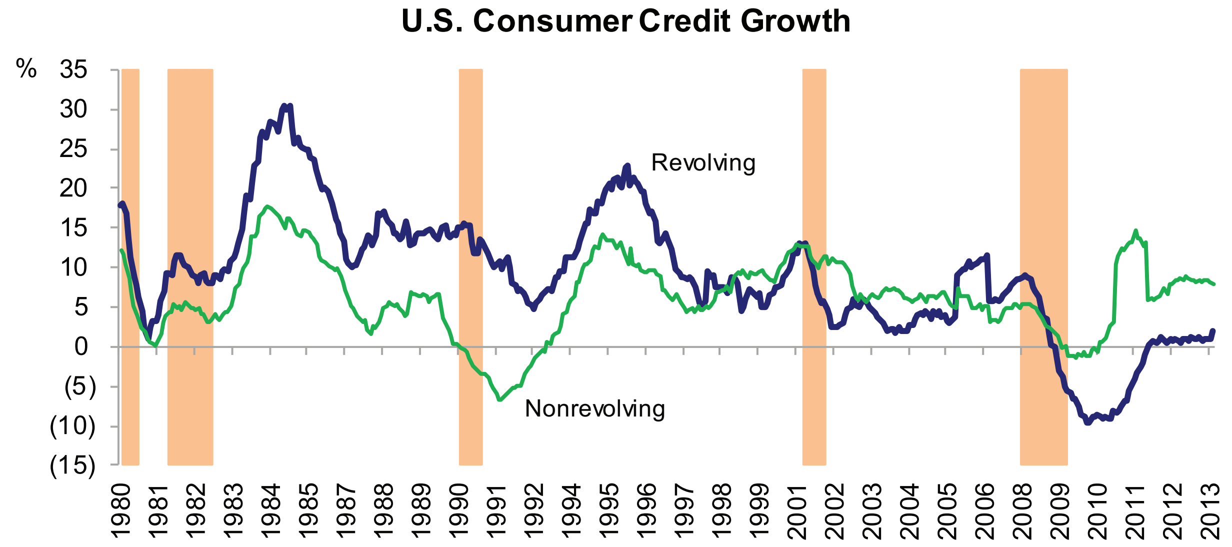


Note: Data is quarterly through 2013:Q3. Delinquent loans are those past due thirty days or more and still accruing interest as well as those in nonaccrual status. They are measured as a percentage of end-of-period loans.
Source: Federal Reserve.

Figure 10

As banks have eased credit, total consumer credit has risen since the end of the most recent recession. The increase in consumer credit has been mainly due to non-revolving credit (see Figure 11). The growth in non-revolving credit is attributed to auto loans, tuition loans, and more recently home mortgages. On the other hand, revolving credit, generally credit card debts, has been flat. As households have reined in their purchases made with credit cards, revolving credit has suffered. Revolving credit accounted for 38.2 percent of total consumer credit in 2008, but averaged 28.2 percent in 2013. The lackluster growth path of revolving credit implies modest spending on nondurable goods and services.

[6] Prashant Gopal, Heather Perlberg, and Dakin Campbell, "JPMorgan Removes Lending Barriers in Booming U.S. Markets," *Bloomberg*, September 11, 2013, Personal Finance, http://www.bloomberg.com/news/2013-09-11/jpmorgan-removes-lending-barriers-in-booming-u-s-markets.html.

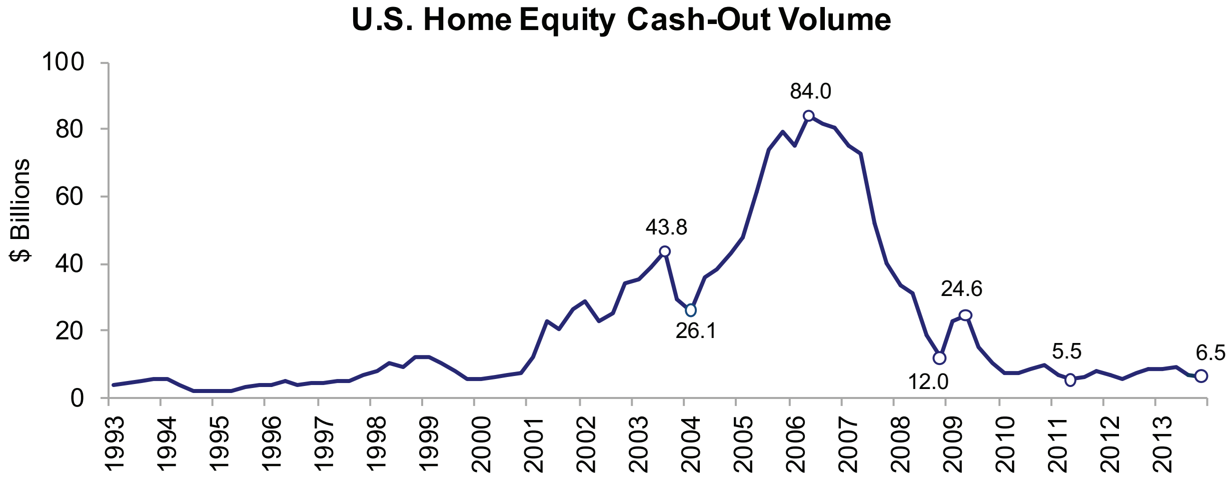


Note: Data is monthly through December 2013. Growth is year-over-year. Shaded areas represent recessions.
Source: Federal Reserve.

Figure 11

Consumers had been financing purchases by extracting money from the value of their home as home prices escalated in the few years prior to the most recent recession. As real estate prices plummeted, home equity withdrawals rapidly declined and have remained low compared to pre-recession levels as low home prices have persisted. Home equity withdrawals peaked in the second quarter of 2006 at $84.0 billion and fell to $5.5 billion in the second quarter of 2011, the lowest level since 1997 (see Figure 12). In the fourth quarter of 2013, homeowners cashed out an estimated $6.5 billion of their home equity. The fact is that many homeowners are refinancing their home loans to take advantage of low mortgage rates and to shorten their loan terms instead of making equity withdrawals.[7] Therefore, as home prices remain low, home equity withdrawals will be curbed, thereby providing little support for consumption spending.

[7] In the fourth quarter of 2013, 39 percent of borrowers who refinanced shortened their loan term, while 83 percent of those who refinanced a first-lien home mortgage kept the same loan amount or lowered their principal balance. Freddie Mac, "Borrowers Who Refinanced in 2013 Saving Over $21 Billion in Interest Payments Over the Coming Year," *2013 Fourth Quarter Refinance Report,* Freddie Mac Office of the Chief Economist, (McLean, VA), February 4, 2014, http://www.freddiemac.com/news/finance/pdf/RefiReport2013Q4.pdf.



Note: Data is quarterly through 2013:Q4; 2013 data is estimated. Total Home Equity Cashed Out is through the refinancing of prime, first-lien conventional mortgages.
Source: Freddie Mac Refinance Activities Report.

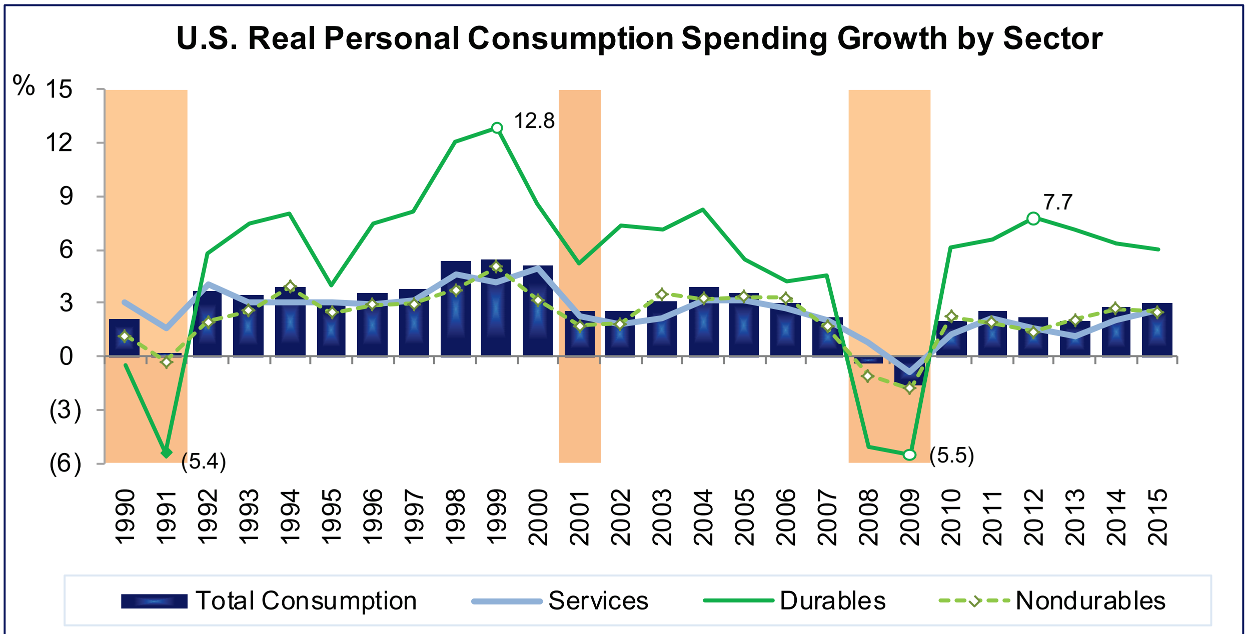
Figure 12

Personal consumer spending has mostly been supported by spending on durable goods. In the first half of 2013, consumers accelerated their spending on furnishings and durable equipment as conditions in the housing market improved. Pent-up demand for motor vehicles led to higher spending.[8] Strong spending on recreational vehicles also contributed to increased growth in spending on durable goods. Spending on motor vehicles has also been supported by low interest rates. With the average age of light vehicles in operation at 11.4 years and long-term interest rates expected to remain below pre-crisis rates, spending on motor vehicles and parts is expected to keep growing over the forecast period.[9]

At best, spending on the other components of consumer spending (nondurable goods and services) has been subdued. Weak growth in spending on services is mainly attributed to lackluster growth in spending related to housing services, financial services and insurance, and other services, along with restrained spending on health care services.[10] However, as the housing market recovers and provisions from the Affordable Care Act are enacted, spending on services related to housing and health care is likely to intensify. With growth in spending on

[8] In 2009, sales of motor vehicles fell to their lowest level since 1996.
[9] Polk, "Polk Finds Average Age of Light Vehicles Continues to Rise," *Polk, IHS Automotive*, August 2013, https://www.polk.com/company/news/polk_finds_average_age_of_light_vehicles_continues_to_rise.
[10] Other services includes communication (i.e., telecommunication, internet access, and postal and delivery services), education services, professional and other services, personal care and clothing services, social services and religious activities, household maintenance, and net foreign travel.

services and nondurable goods anticipated to remain below pre-crisis rates, weakness in personal consumption spending will persist (see Figure 13).



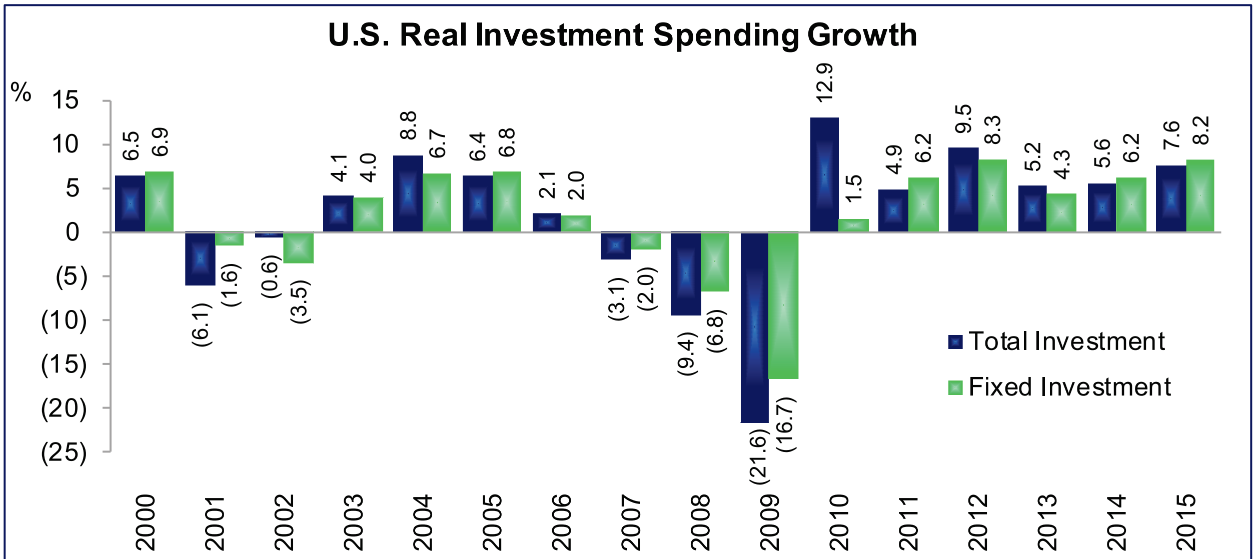
Note: Data for 2013 is estimated; 2014 and 2015 are forecasts. Shaded areas represent recessions.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 13

Investment

Business spending grew 9.5 percent in 2012 as business inventories increased at a faster rate and spending on fixed investment expanded 8.3 percent (see Figure 14).[11] Total business spending growth in 2013 is estimated to have slowed to 5.2 percent due to decelerated growth in fixed investment. Slower growth in fixed investment in 2013 was due in part to a shift in spending on equipment to the end of 2012 and slowed growth in spending on nonresidential structures. Business spending growth is forecast to accelerate to 5.6 percent in 2014, and 7.6 percent in 2015 as spending in every component of fixed investment accelerates, while changes in business inventories remain stable.

[11] Total investment spending is made up of fixed investment and change in private inventories.

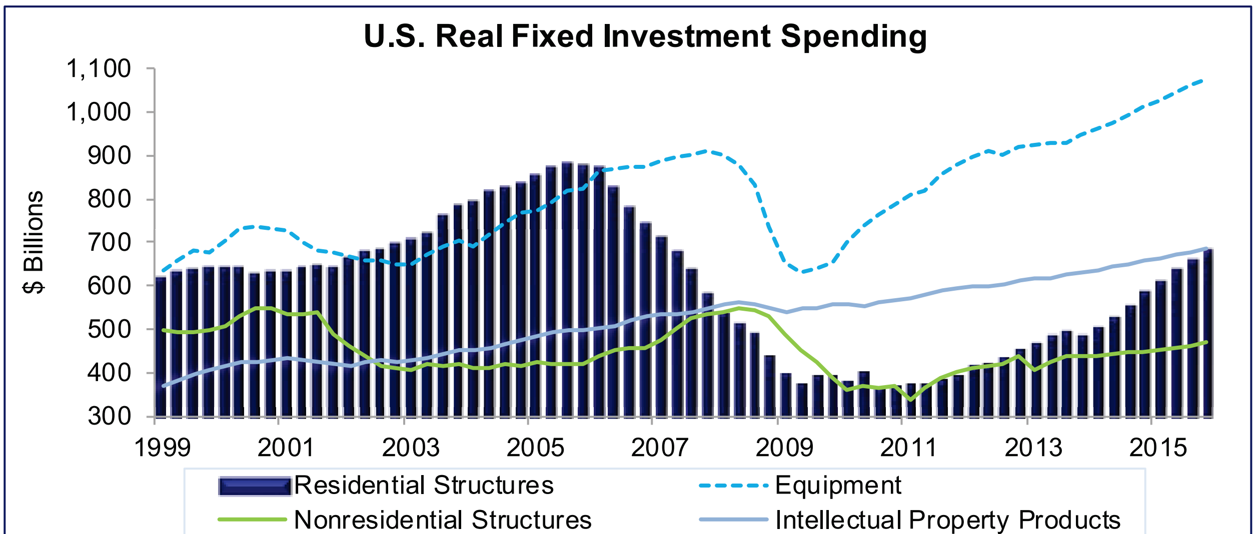


Note: Data for 2013 is estimated; 2014 and 2015 are forecasts.

Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 14

Spending on equipment and intellectual property products has been the largest contributor to growth in business spending over the past three years and continues to drive growth in investment spending (see Figure 15). After falling for five years, spending on residential construction grew 0.5 percent in 2011; growth in 2012 accelerated to 12.9 percent,



Note: Data is seasonally adjusted at an annual rate (SAAR) and is quarterly through 2015:Q4. Data for 2013 is estimated; 2014 and 2015 are forecasts.

Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 15

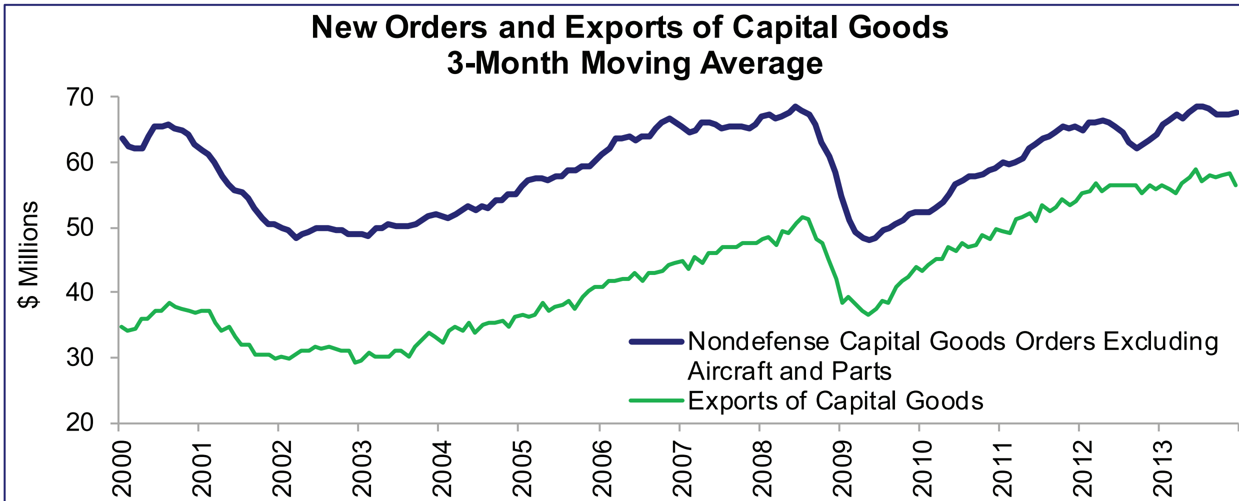
and is estimated to have been slightly slower in 2013. Given the level from which the construction of homes had fallen, there is significant potential for spending growth. The residential sector is forecast to be a major driver of business spending in the forecast period, but will remain below pre-recession peak levels through 2015. Spending on nonresidential structures remains depressed and is forecast to make modest improvements through 2015 as market fundamentals slowly improve.

Nonresidential Fixed Investment Spending

Business spending on intellectual property products is a new addition to the U.S. National Income and Product Accounts (NIPA). The expanded measurement was added to business investment spending as part of the Bureau of Economic Analysis' 14th comprehensive revision of the NIPA. In 2013, the largest components of intellectual property products were software spending at $295 billion and research and development at $280 billion. Dating back to the 1960s, business spending growth in this sector slowed during periods of recession, but had annual declines only three times: 1970, 2002, and 2009. Since 1960, on average, spending on intellectual property products has grown 6.5 percent a year. As the importance of software and research and development has grown, the share of intellectual property products in total business spending rose to approximately 25 percent in 2013, compared to 15.0 percent in 1990 and 10.0 percent in 1980. In 2013, spending on intellectual property products is estimated to have grown 3.1 percent, following a gain of 3.4 percent in 2012. As the economy continues to improve, spending growth on intellectual property products is forecast to accelerate to 4.0 percent in 2014 and 4.4 percent in 2015.

Business spending on equipment surpassed the 2007 pre-recession peak of $898.3 billion in 2012, growing 7.6 percent to $905.9 billion. Spending growth on equipment is estimated to have slowed to 2.9 percent in 2013. Slowed spending growth in 2013 is partially due to a shift in equipment purchases to the end of 2012, brought on by the expected expiration of a 50 percent depreciation bonus on equipment at the end of 2012. This shift occurred again in the fourth quarter of 2013, but was smaller in scale, as the depreciation bonus expired on December 31, 2013. Uncertainty related to federal government actions has also played a part in slower business spending. Despite ongoing concerns, business spending on equipment is forecast to accelerate in the forecast period as lending conditions remain favorable and the U.S. economy expands along with global demand for U.S. goods.

New orders for nondefense capital goods excluding aircraft and parts, a leading indicator of investment spending, has grown at a slower rate in recent months (see Figure 16). Relaxed demand from abroad for U.S. high-value added goods is contributing to the pace of orders. As global growth is forecast to accelerate in the forecast period, demand for U.S. goods will rise. Ongoing expansion in production capacity, especially for durable manufactured goods, indicates that businesses expect demand growth to continue in coming years. High stock prices and an upturn in demand for commercial and industrial loans mirror expectations of higher future income and indicate opportunity for profitable investment in equipment.



Note: Data is seasonally adjusted and is monthly through December 2013.
Source: U.S. Census Bureau.

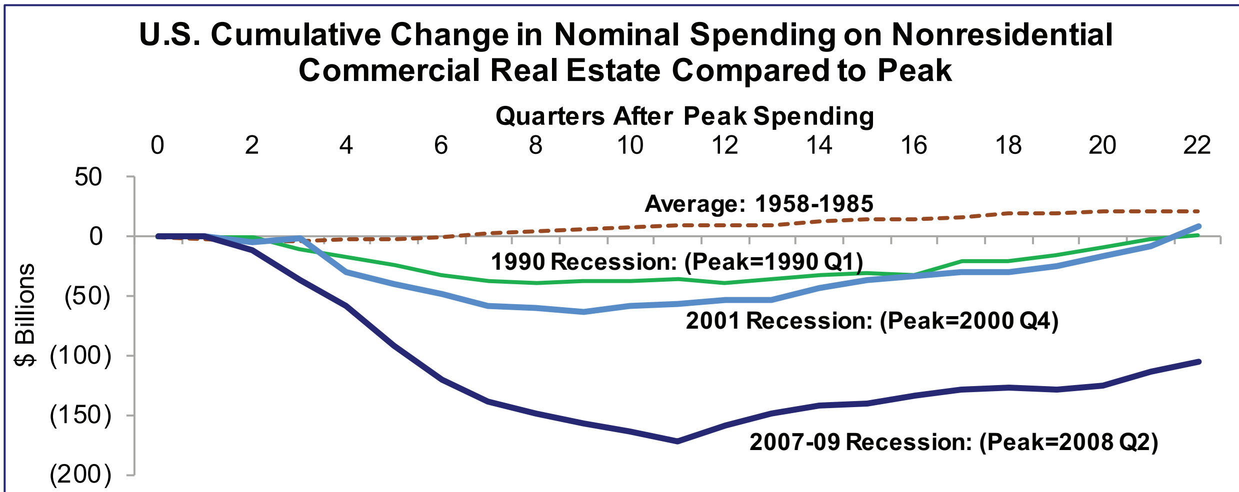
Figure 16

Expansion in business spending on equipment is also being encouraged by favorable lending standards. Businesses continue to benefit from low interest rates, which keep down the cost of purchasing capital. Standards for commercial and industrial loans have loosened significantly since the most recent recession. In addition, businesses continue to have record amounts of liquid assets and cash on hand to fund ongoing operations and develop future projects. Given the favorable credit environment and expectations of increasing demand for U.S. goods, business spending on equipment is forecast to accelerate to 5.7 percent in 2014 and 6.7 percent in 2015.

The current comeback in business spending on nonresidential commercial real estate is the slowest in recorded history. From the 1950s through the early 1980s, the level of business spending on commercial real estate rebounded quickly following periods of contraction, surpassing the pre-recession peak within one year after reaching the nadir.

Following the passing of the Tax Reform Act of 1986, the period of recovery in the commercial real estate cycle began to lengthen and declines became more severe. The Tax Reform Act of 1986 eliminated the “Accelerated Cost Recovery System” introduced by the Economic Recovery Tax Act of 1981 and took away the ability of investors to offset income gains in one investment with losses and deductions from another.[12] The 1985 to 1986 decline in construction of commercial real estate was not connected to a particular recession but rather a result of the Tax Reform Act of 1986. Following the fourth quarter of 1985 to the third quarter of 1986 decline, the level of construction of commercial real estate took three years to pass its pre-recession peak.

In the 1990s, the rate of recovery in commercial real estate following a downturn continued to slow as business spending on nonresidential commercial real estate took four years to reach the pre-recession peak level (see Figure 17). The trend continued following the 2001 and the most recent recessions. In addition, the magnitude of the decline increased significantly during these two periods. From 2000 to 2003, construction spending on commercial real estate contracted 25.3 percent, and contracted 50.2 percent from 2008 to 2011. Comparatively, business spending on commercial real estate fell between 2.9 percent and 10.6 percent in periods of contraction between 1958 and 1999.



Note: Commercial real estate spending was calculated using the following components of Bureau of Economic Analysis' measurement of investment spending on nonresidential structures: commercial and health care, manufacturing, and other structures.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 17

[12] Federal Deposit Insurance Corporation, “Commercial Real Estate and the Banking Crises of the 1980s and Early 1990s,” *An Examination of the Banking Crises of the 1980s and Early 1990s*, vol. 1, chapter 3, published 1997, http://www.fdic.gov/bank/historical/history/137_165.pdf.

Though it has been over two years since the commercial real estate sector hit bottom, improvements have been slow as property fundamentals remain weak. Real spending on commercial real estate continued to have weak growth throughout 2013. Given the level from which spending fell and the ongoing weakness in commercial real estate markets, spending on the construction of new commercial real estate is forecast to remain below its pre-recession peak through 2015.

The commercial property price index indicates that property values for office space are 10.6 percent below the 2007 peak, while property values for industrial space and retail space are approximately 20 percent below their 2007 peaks.[13] While banks indicate that they are more willing to make commercial real estate loans, standards are still tight, and rates of return on these investments are low.[14] Tapering of quantitative easing by the Federal Reserve will raise interest rates and make investment in new construction less appealing by raising the cost of investment.

Slow employment growth and a new focus on space efficiency have weighed on the office market, keeping vacancy rates high and rent growth slow. The U.S. office vacancy rate remained elevated at 16.9 percent in the third quarter of 2013, while rent growth has averaged less than 1 percent per quarter since 2011; leading up to the most recent recession, the office vacancy rate stood at approximately 13 percent, and rent growth was averaging between 2 and 3 percent per quarter.[15] Retail space has been the slowest to recover. Stores that cater to segments of the population at and below middle income have been hurt by slow growth in personal income and increasing competition from online merchants.

Industrial real estate is fundamentally stronger than retail space and office space, but remains depressed. Construction of industrial buildings is being supported by growth in manufacturing (particularly of transportation equipment), the expansion of online retailers, and stronger exports. Sales by online retailers have grown by 15 to 16 percent annually over the past three years and currently capture 6.0 percent of total retail sales.[16] Continued growth in

[13] Monthly data through December 2013. See Moody's/RCA Commercial Property Price Index, Moody's Investors Service (MIS).
[14] Board of Governors of the Federal Reserve System: Senior Loan Officer Opinion Survey on Bank Lending Practices, January 2014.
[15] Wells Fargo Securities, Economics Group, "Commercial Real Estate Chartbook: Q3," *Special Commentary,* November 12, 2013, https://www08.wellsfargomedia.com/downloads/ pdf/com/insights/economics/real-estate-and-housing/CRE_Chartbook_Q3_2013_11122013.pdf.
[16] U.S. Bureau of the Census, "Quarterly Retail E-Commerce Sales, 4th Quarter, 2013, February 18, 2014, http://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf.

e-commerce sales has generated demand for new warehousing and distribution space. The continued expansion of e-commerce companies will facilitate the construction of industrial buildings that cater to the unique needs of these companies. In coastal areas, demand for warehouse and distribution space is increasing in anticipation of larger container ships that will arrive with the opening of a new channel in the Panama Canal in 2015. Upon its completion, the tonnage of trade that will be able to transit the canal will double, while the ship size that can traverse it will increase to 12,500 twenty-foot equivalent units (TEU) from 4,800 TEUs.[17] The increase in capacity is expected to enhance trade along the east coast with Asia and lower the cost of moving goods.

Outside of spending on commercial real estate, growth in business spending on structures in the U.S. energy sectors, including power and communication, and mining, exploration, shafts and wells, will likely slow in the forecast period. Investment in power and communication can be highly volatile. The U.S. Energy Information Administration (EIA) forecasts that the rate of growth in demand for electricity, the largest component of power and communication, is anticipated to slow in 2014 and 2015, following high annual additions of gigawatts in 2012 and 2013. Moves to take advantage of federal tax incentives and meet state renewable standards played a significant role in the growth of spending on power in recent years.[18]

Changing dynamics in the natural gas sector and lower oil prices should result in lower business spending on oil and gas wells, following several years of tremendous growth. In 2012, the price of natural gas plunged to a 10-year low. The downward swing in natural gas prices was caused by a boom in natural gas extraction between 2009 and 2012, which created an oversupply in the United States. Consequently, companies have begun investing in storage terminals and gas processing plants, in addition to limiting drilling in some fields. Adding to the detriment of oversupply is the debt taken on by producers to acquire land during the boom period. Many of the properties bought from 2009 to 2012 have turned out to have underperforming wells; consequently, the price of the land has fallen substantially. Plunging prices, along with disappointing production from wells in certain areas have resulted in a series of write-downs of assets and increased caution in land purchases. During the first half of 2013, acquisitions of North American energy assets reportedly dropped to the lowest level since

[17] Jason Beaubien, "An Upgrade, and Bigger Ships, for the Panama Canal," National Public Radio (NPR), April 4, 2012, http://www.npr.org/2012/04/04/149923363/an-upgrade-and-bigger-ships-for-the-panama-canal.
[18] U.S. Energy Information Administration, *Annual Energy Outlook 2013, with Projections to 2040*, April 2013.

2004. As companies can no longer depend on asset sales to fund drilling programs, they have become cautious in purchasing and developing shale acreage.[19]

Residential Investment

The housing market has remained depressed since the housing bubble burst several years ago. Since their peak in 2005-06, home sales, starts, and prices declined sharply until 2009 when the housing market began to stabilize. The S&P/Case-Shiller Composite Index (Case-Shiller) dropped by over 30 percent from the first quarter of 2006 to the second quarter of 2009, with the highest depreciation rates in the areas that experienced the fastest growth during the boom period. Both the Case-Shiller and the Federal Housing Finance Agency (FHFA) home price indices began to stabilize in early 2009, but still suffered small losses until early 2012 (see Figure 18). Similarly, housing starts had dropped from a record high of over 2.1 million in 2005 to a low of 554,000 in 2009 before rebounding in 2010. Both new and existing home sales also fell sharply during this period.

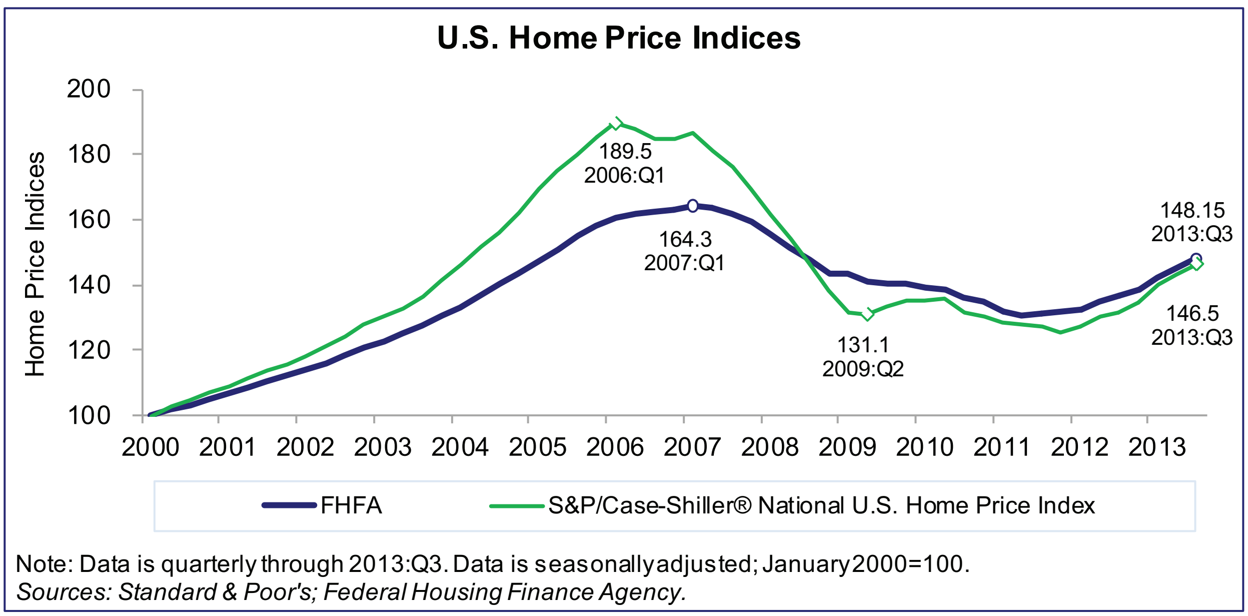


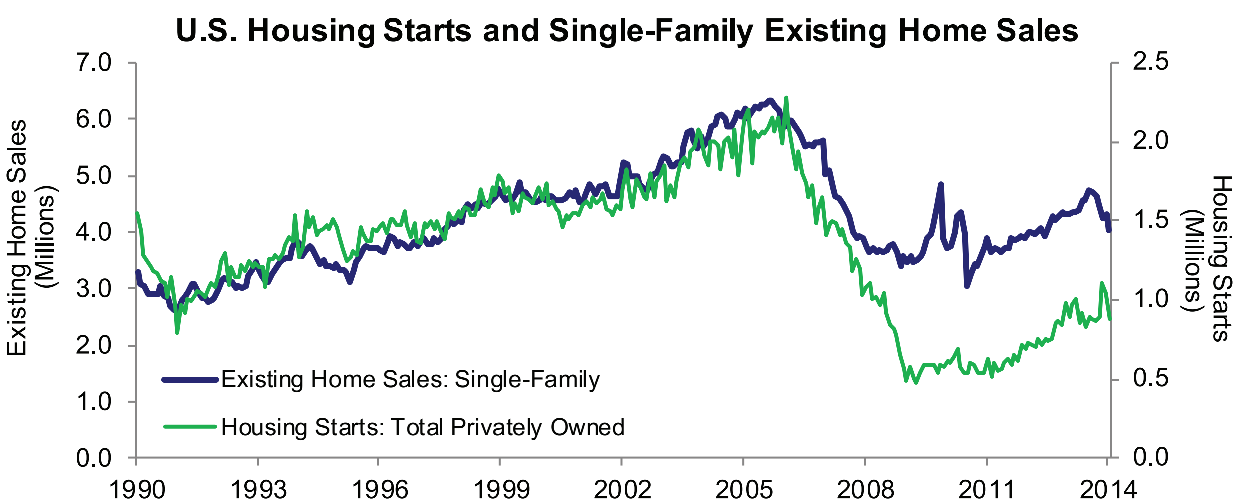
Figure 18

Declining home prices coupled with low interest rates have made homes more affordable during the housing recovery. The National Association of Home Builders/Wells Fargo

[19] Matthew Monks, Rebecca Penty, and Gerrit de Vynck, "Shale Grab in U.S. Stalls as Falling Values Repel Buyers," *Bloomberg,* Sustainability section, August 18, 2013, http://www.bloomberg.com/news/2013-08-18/shale-grab-in-u-s-stalls-as-falling-values-repel-buyers.html.

Housing Opportunity Index (HOI) rose from 40.4 percent in the third quarter of 2006 to the recent high of 77.5 in the first quarter of 2012, which helped promote activities in the housing market. Increasing sales, a slowdown in foreclosures, and slow growth in new home construction have caused a decline in the number of homes available for sale. After reaching a record high of 3.8 million in late 2007, new and existing homes available for sale fell and have stayed below 2 million homes since late 2012, a level below the long-term average.

The housing market showed signs of improvement in 2012 and gained steadily in 2013. From the first quarter of 2012 to the third quarter of 2013, the FHFA House Price Index gained 11.7 percent, while the Case-Shiller House Price Index gained 5.2 percent. Housing starts continued to improve in 2013 to 931,000 on an annual average basis, although they have softened in recent months due in part to supply constraints and inclement weather (see Figure 19). Similarly, after years of stagnant sales, both new and existing home sales have been on an upward trend. New home sales gained 16.4 percent in 2013, while existing home sales gained 9.1 percent during this period, reflecting continued improvement in the housing market. Despite the improvement, the housing market remained depressed. Although home prices have reached level seen in the mid-2000s, sales and starts remain well below their pre-bubble level.



Note: Data is seasonally adjusted at an annual rate (SAAR) and is monthly from January 1990 to January 2014.
Sources: U.S. Census Bureau; National Association of Realtors.

Figure 19

The current improvement in the housing market is not without risks as investors have been increasingly purchasing homes in the market. This raises concern that investor activity may have led to an inflated recovery. From 2000 to 2006, the cash sales share of total home sales was fairly steady at about 25 percent of total sales. Cash sales share rose quickly in 2007 reaching 32 percent in December 2013.[20] Cash sales, however, have accounted for a much larger proportion of total sales in certain areas such as New York, where cash sales accounted for about 53 percent of total sales in May 2013.[21] Furthermore, rising mortgage rates and rising home prices have led to a higher cost of owning a house. As a result, the HOI fell from its recent peak of 77.5 in the first quarter of 2012 to 64.5 in the third quarter of 2013. This will likely have a negative impact on housing demand, which could affect the current recovery in the housing market.

Although housing affordability will likely continue to fall, the housing market outlook remains positive. Activities in the housing market are expected to continue to improve, supported by household formation and continued economic recovery. However, the speed of improvement will rely heavily on employment and wage growth. As employment is forecast to grow slowly in 2014, while wages are expected to grow moderately, the housing market should improve gradually. As the overall economy continues to improve at a faster pace in 2015, activities in the housing market as well as home prices are anticipated to improve at a faster pace. However, while housing starts are expected to rise, they will remain below their previous peak throughout the forecast period.

Government Spending

The decline in total government spending continued in 2012, but at a more gradual pace than in 2011, as the falloff in state and local government spending slowed and an increase in federal nondefense spending moderated the acceleration in federal defense spending cuts.[22] In 2013, total government spending, adjusted for inflation, is estimated to have decreased 2.2 percent and is forecast to fall another 1.0 percent in 2014 driven by spending cuts by the federal government (see Figure 20). As the federal government contends with lowering the nation's deficit, cuts are expected to persist. In contrast, state and local government spending is anticipated to expand as revenues improve. The rate of increase will be restrained, however, as states and their localities operate on trimmer budgets. Hence, total government spending is projected to fall 0.1 percent in 2015 as the decline in federal government spending tapers and growth in state and local government spending strengthens.

[20] National Association of Realtors, "December Existing Home Sales Rise, 2013 Strongest in Seven Years," *News Release*, January 23, 2014.

[21] Sam Khater, "Real Estate and the Impact of Cash Sales," *The MarketPulse, vol. 2, issue 7*, CoreLogic, July 16, 2013.

[22] Between 2010 and 2012, state and local government spending accounted for approximately 59 percent of total government spending, while federal government spending comprised about 41 percent.

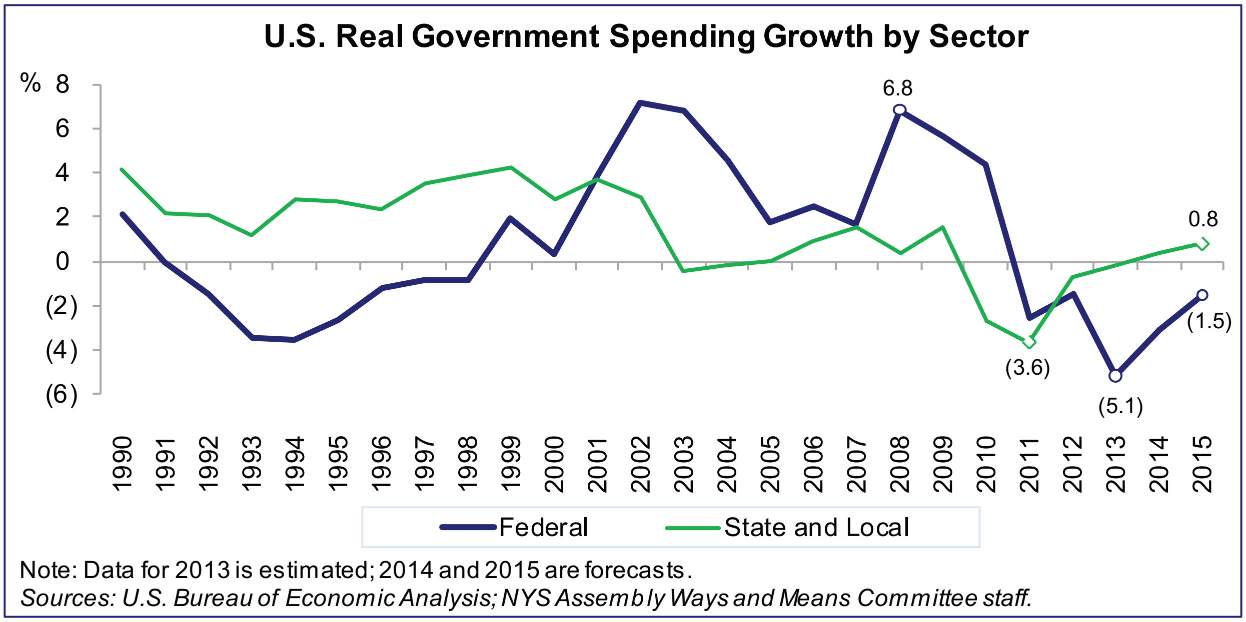


Figure 20

A limited shutdown of the federal government between October 1, 2013, and October 16, 2013, initially resulted in approximately 36 percent of the federal government's defense and nondefense civilian workforce being furloughed. However, the Department of Defense directed its civilian employees back to work after a week. Hence, given that the loss to economic growth from the shutdown is mainly from the compensation that is delayed for furloughed workers, the impact on the economy is estimated to have been small and contained to the fourth quarter of 2013.

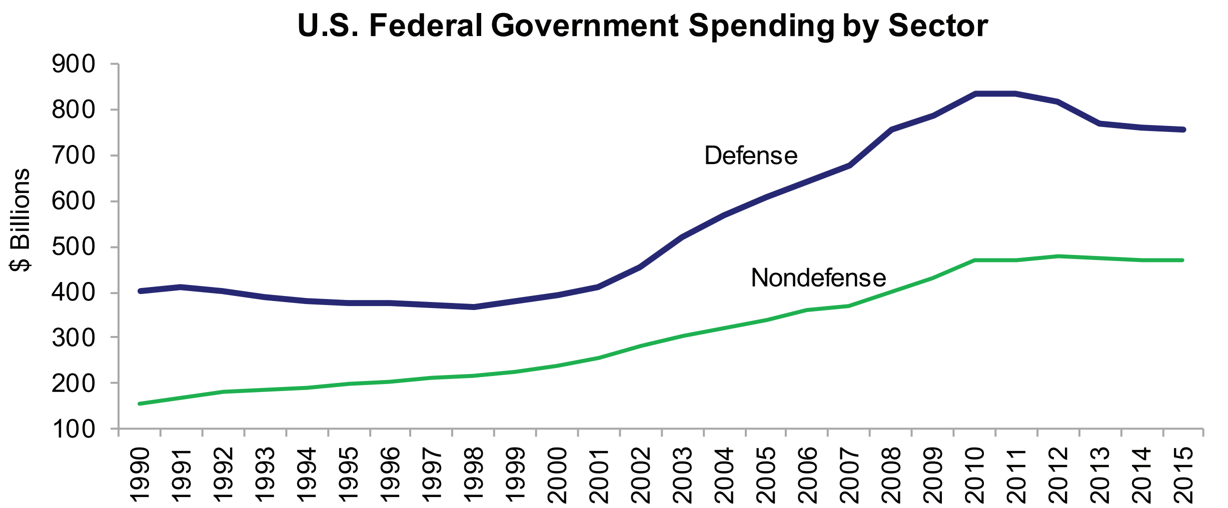
Risks to the government spending forecast stem mainly from uncertainties associated with automatic spending reductions required by the Budget Control Act of 2011 (BCA) that took effect at the beginning of March 2013, and debt ceiling negotiations.[23] These issues will continue to be risks to the forecast in coming years if federal policymakers are unable to achieve longer term budgetary solutions. Expenditures related to emergency management, disaster relief, and overseas contingency remain a constant risk. In fiscal year 2013, the federal government's adjustments to budgetary caps totaled $152.6 billion. Most of this additional appropriation was funding for relief and recovery due to Hurricane Sandy and overseas contingency operations related mainly to activities in Afghanistan.[24]

[23] *The Budget Control Act of 2011*, Public Law 112-25, 112th Congress, August 2, 2011. Also, see *The American Taxpayer Relief Act of 2012*, Public Law 112-240, 112th Congress, January 2, 2013.

[24] U.S. Congressional Budget Office, *Sequestration Update Report: August 2013*, August 2013, http://www.cbo .gov/sites/default/files/cbofiles/attachments/44491-SequestrationUpdate.pdf.

Federal Government Spending

Federal government spending has been weighed down by spending caps, and less spending on overseas contingency operations, public structures, and public investment in research and development. Federal government spending, adjusted for inflation, fell 1.4 percent in 2012, less than the decline of 2.6 percent in 2011. Defense spending constraints were the primary source of the decrease in federal government spending since nondefense expenditures rose in 2012 (see Figure 21). The increase in nondefense spending was due to higher public spending on nondurable goods, services, equipment, and software.



Note: Data for 2013 is estimated; 2014 and 2015 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 21

Spending cut mandates under the Budget Control Act of 2011 (BCA) took effect in March 2013 with both defense and nondefense spending adversely impacted. The spending reductions required by BCA are over ten years. However, the Bipartisan Budget Act of 2013 revised the spending caps for automatic spending reductions set forth by the BCA for fiscal years 2014 and 2015. As a result, the impact of sequestration on federal government spending was more pronounced in 2013, with fiscal drag on the economy dissipating over future years.[25] A provision in the Affordable Care Act set to take effect in 2014 induces the expansion of

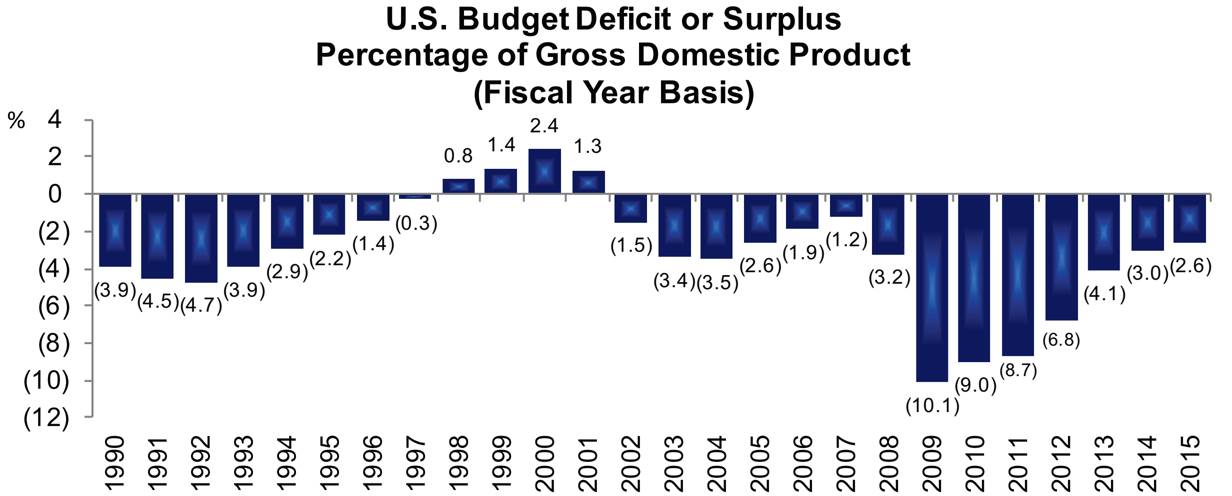
[25] The law caps federal funding at $1.01 trillion for fiscal years 2014 and 2015. However, the law raises the sequestration caps by $45 billion in federal fiscal year 2014 and by $18.5 billion in fiscal year 2015 and extends automatic spending reductions applied to certain mandatory spending accounts by two more years to 2023. The revised spending caps are to be evenly divided between defense and nondefense funding. See *The Bipartisan Budget Act of 2013*, Public Law, 113-27, 113th Congress, December 26, 2013.

Medicaid, and consequently higher federal government spending.[26] Further pressures to rein in federal spending over the next several years are expected as policymakers negotiate federal budgets. Consequently, federal government spending is estimated to have fallen another 3.1 percent in 2013, and is forecast to decline an additional 5.1 percent and 1.5 percent in 2014 and 2015, respectively (see Figure 20).

One of the most important concerns in recent years has been the persistent budget gaps accrued by the federal government. For decades, the federal government has incurred deficits as spending has outgrown revenues. These budget deficits have contributed to over $16 trillion in national debt.[27] Rising outlays for entitlement programs because of the aging population, cost of health care services, and the expansion of health insurance coverage will place a significant burden on federal government coffers. Additionally, as interest rates rise, interest payments associated with the national debt are expected to balloon. As a result, pressure to further restrain federal government spending will persist over the forecast period.

The federal deficit in fiscal year 2012 was $1.1 trillion. This was 6.8 percent of GDP, a drop from 8.7 percent in 2011 due largely to a 13.3 percent increase in revenues and a 2.4 percent reduction in government outlays (see Figure 22).[28] In fiscal year 2013, the budget deficit was 4.1 percent of GDP or $680 billion.[29] In fiscal year 2014, the budget gap as a percentage of GDP is projected to fall further to 3.4 percent because of the focus on spending cuts and higher revenue expectations.[30]

[26] States can choose to expand eligibility for Medicaid to non-elderly adults who are below 138 percent of the federal poverty guidelines. See, *The Patient Protection and Affordable Care Act*, Public Law 111-148, March 23, 2010.
[27] U.S. Congressional Budget Office, The Budget and Economic Outlook: Fiscal Years 2013 to 2023, February 2013.
[28] Ibid.
[29] U.S. Department of Treasury, Financial Management Service, *Final Monthly Treasury Statement of Receipts and Outlays of the United States Government for Fiscal Year 2013 through September 30, 2013, and Other Periods,* September 2013, http://fms.treas.gov/mts/mts0913.pdf.
[30] U.S. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, February 2013.



Note: Data for fiscal years 2014 and 2015 are estimates. The federal fiscal year starts October 1 and ends September 30 of the next calendar year; therefore, fiscal year 2014 is from October 1, 2013, through September 30, 2014. The Congressional Budget Office assumes current laws.

Source: U.S. Congressional Budget Office.

Figure 22

State and Local Government Spending

State and local government spending, adjusted for inflation, fell for the third consecutive year in 2012 but at a slower pace than in the prior two years (see Figure 20 on page 24). States and their localities continued to make cuts as spending outpaced revenues. Significant fiscal stimulus from the federal government in the previous three years diminished. Since most states have statutory balanced budget requirements, many states and local governments continued to rein in spending.

Though state and local tax collections have improved from the most recent recession and many states and local governments are operating on trimmer budgets, a slow overall economic recovery has hampered the state and local government spending outlook. Local government coffers have been especially affected due to their reliance on property taxes. Local governments have been experiencing higher property tax collection as home prices have begun to increase. However, with home prices generally far below pre-recession levels, local government spending will likely continue to be constrained. Other challenges faced by states and their localities include rising health care and pension costs. Furthermore, as the federal government continues to cut spending, some spending burden will possibly be shifted to state and local governments already operating on lean budgets.

State and local government spending declined an estimated 0.2 percent in 2013 as slow revenue growth persisted, causing states and localities to keep their budgets lean. The slower pace of revenue growth will continue to impede state and local government spending.[31] However, as tax collections are anticipated to further improve, state and local government spending is forecast to finally grow in 2014, although only by 0.4 percent and 0.8 percent in 2015. The growth pattern for state and local government spending is consistent with other recoveries after a recession: state and local government spending tends to continue to fall even after recessions end, and then increase at a measured pace. After the 2001 recession, state and local government spending fell for three consecutive years then grew 0.9 percent in 2006.

Exports and Imports

After growing for six consecutive years following the 2001 economic downturn, U.S. trade declined sharply in 2009 as the world slipped into recession. Since then, U.S. trade has continued to recover due mainly to the weak U.S. dollar and the global economic recovery. In 2012, however, several European countries were in recession. As a result, U.S. export growth slowed to 3.5 percent in 2012, while imports grew only 2.2 percent. The European sovereign debt crisis subsided in 2013; however, there is another risk the world is facing: the slowdown of the Chinese economy. The recent depreciation of emerging countries' currencies as a result of capital outflow also adds uncertainty to global economic outlook.[32] Exports grew an estimated 2.8 percent in 2013, compared to 1.4 percent growth for imports.

The Chinese economy is estimated to have grown 7.7 percent in 2013, the slowest pace since 1999. China is the second largest economy in the world and contributed about one-third of world GDP growth in 2012.[33] A slowdown in China could have an adverse impact on global economic growth and on Asian economic growth in particular, as exports to China account for almost 5 percent of Asian GDP.[34] However, the extent and severity of such an impact remains uncertain. Thus, the outlook for global growth remains somewhat unclear. Nevertheless, the world economy is anticipated to grow faster in 2014 and 2015, while the U.S. dollar is

[31] State personal income, sales, and corporate income tax revenues have been recovering far more slowly from the recent recession than from previous recessions. See Lucy Dayadan and Donald J. Boyd, "Strong Gains in the First Quarter; Mounting Uncertainty for the Rest of 2013," State Revenue Report, No. 92, Rockefeller Institute of Government, August 2013.
[32] Countries such as Argentina, Brazil, India, and Turkey.
[33] Wells Fargo Securities, Economics Group, "How Much Does Slower Chinese Growth Matter?" *Special Commentary*, July 10, 2013, Figure 2, page 2, http://www.realclearmarkets.com/docs/2013/07/Does_Slower_Chinese_Growth_Matter%20_%2007102013.pdf.
[34] Ibid., Figure 3, page 3.

anticipated to remain weak. Exports are forecast to grow by 5.2 percent in 2014 and another 5.1 percent in 2015. Imports are forecast to increase by 3.8 percent in 2014 and 5.7 percent in 2015 (see Figure 23).

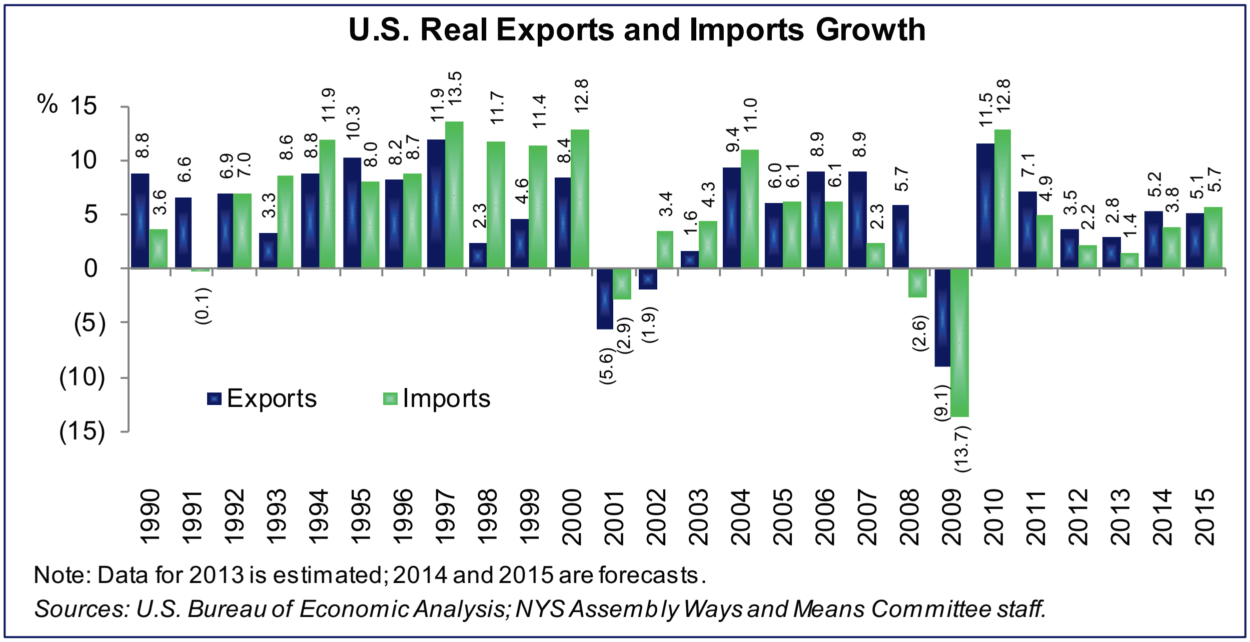
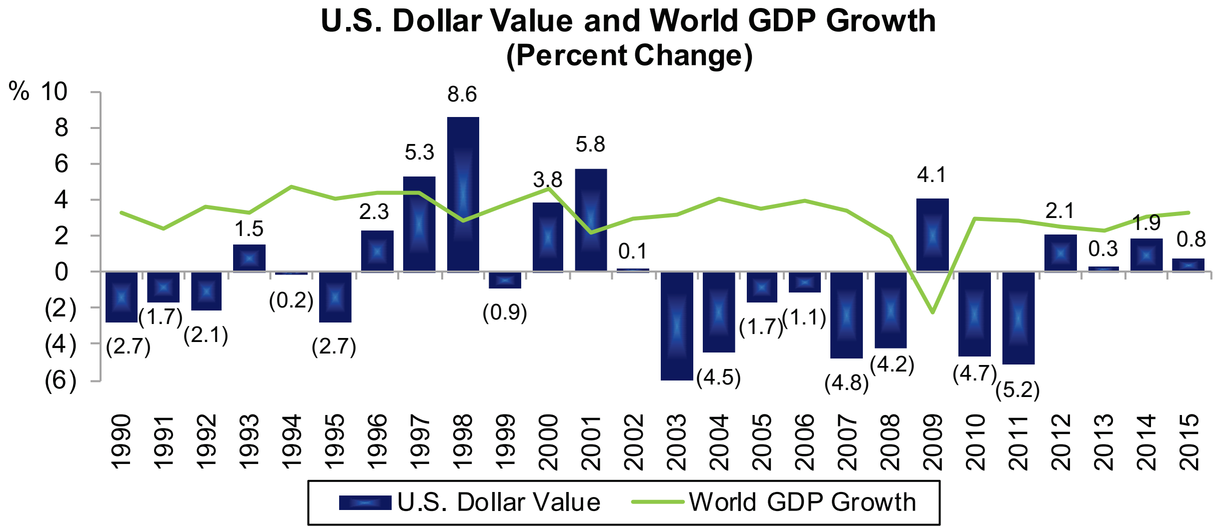


Figure 23

The U.S. dollar depreciated for six years prior to and during the recession before rebounding sharply in 2009, when investors moved money toward the safe-haven currency amid global recession. Downward pressure from increasing worries over mounting U.S. debt and the concern about the pace of U.S. recovery caused the dollar to depreciate in 2010 and 2011. As the situation in Europe deteriorated in 2012, leading the euro area into another recession, investors shifted their investments to dollar-denominated assets. As a result, the dollar appreciated 2.1 percent in 2012. The debt crisis has been somewhat alleviated recently as the European Central Bank (ECB) started to intervene in the secondary market to purchase bonds, which has boosted investors' confidence, and Greece received a package of $56.8 billion in additional loans in December 2012. The dollar's value is estimated to have appreciated by 0.3 percent in 2013. As the European debt problem subsides, investors are likely to shift more money to invest in Euro denominated assets. Thus, the dollar's value is expected to remain low throughout the forecast period. It is forecast that the dollar value will appreciate another 1.9 percent in 2014 and 0.8 percent in 2015 (see Figure 24).



Note: Data for 2013 is estimated; 2014 and 2015 are forecasts.
Sources: Federal Reserve; NYS Assembly Ways and Means Committee staff.

Figure 24

Details of U.S. Trade and the International Economy

Since 1995, industrial supplies and high value-added capital goods such as aircrafts and computers have been the major categories of goods exported by the U.S. In 2013, industrial supplies and capital goods accounted for 65 percent of total exports. The U.S. had a trade surplus of $88.3 billion in capital goods and industrial supplies (excluding petroleum) in 2013 compared to $62.2 billion in 2012, while overall trade was in deficit. The U.S. has recorded trade surpluses in these investment goods and production inputs for twelve out of the past seventeen years, while overall trade has been in deficit every year. Trade of these goods and supplies appears to be relatively less sensitive to the changes in the value of the U.S. dollar (see Figure 25).

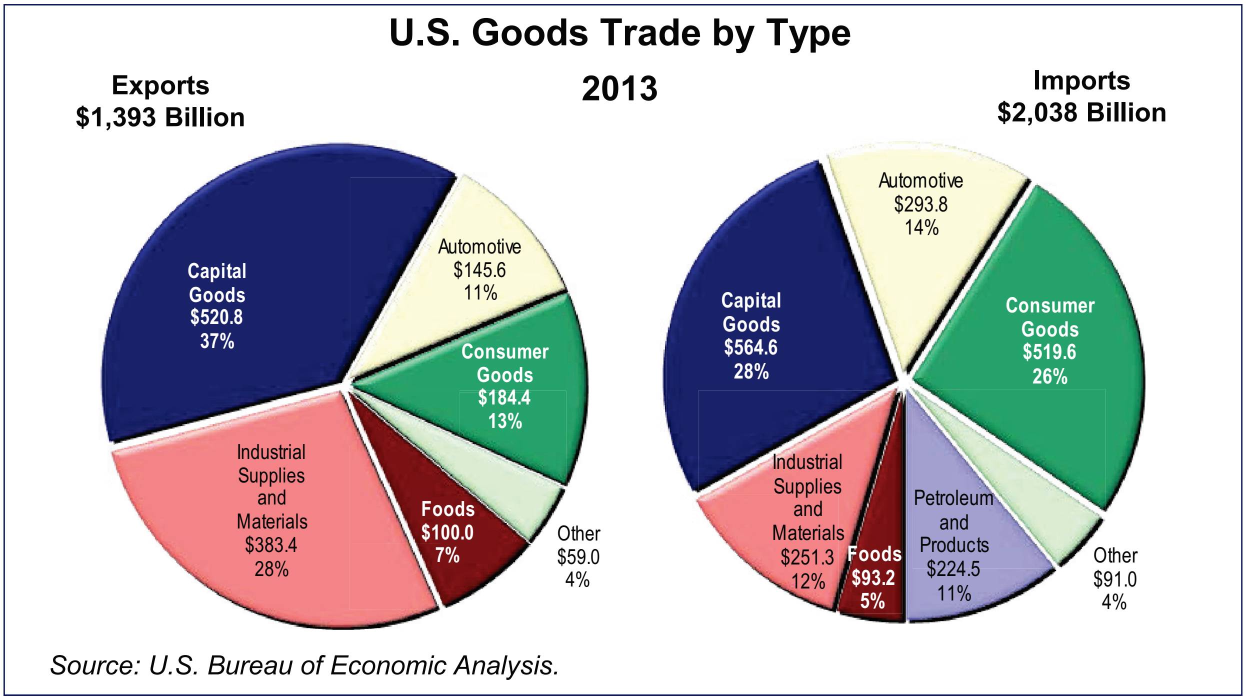


Figure 25

There have been significant changes in U.S. trade patterns. The U.S. has imported significantly more consumer and capital goods in recent years than in 1995. Consumer goods accounted for 26 percent of U.S. total imports in 2013, compared to 19 percent in 1995. Similarly, imports of capital goods have increased from 16 percent of total imports in 1995 to 28 percent of total imports in 2013. In contrast, U.S. imports of petroleum and products as a percentage of total imports dropped during this period. In 1995, U.S. imports of petroleum accounted for 21 percent of total U.S. imports; this share fell to 11 percent in 2013 (see Figure 26). This indicates that the U.S. has been relying less on imported oil in recent years.

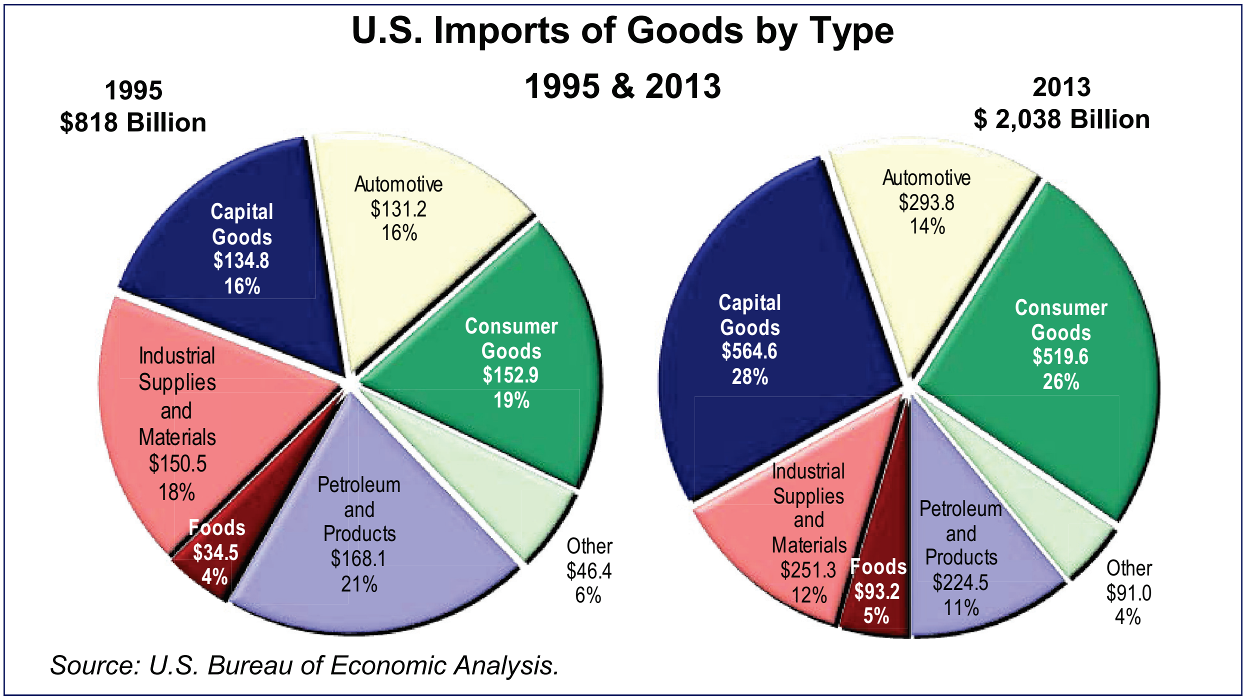


Figure 26

Many countries around the globe went into recession in 2009, but have since rebounded. Most countries continued to grow in 2012, with the exception of several European countries that were in recession as they were faced with high debt as well as problems with local real estate and financial markets. As a result, the Eurozone economy slipped back into recession in 2012, after growing 1.9 percent in 2010 and 1.4 percent in 2011. The debt problem has also put a drag on other economies through trade and financial burden.[35] As a result, many countries across the globe experienced slower growth in 2012 than in 2011.

As the debt problems continue to weigh on European economies, and growth rates in developing economies have slowed, the Eurozone economy is estimated to have contracted in 2013. Economic growth in the Eurozone declined by 0.4 percent in 2013, but is expected to return to growth in 2014.

After growing at 4.4 percent in 2010, the strongest growth since 1990, Japan went into recession in 2011, due mainly to the earthquake and tsunami that caused many factories to shut down for more than a month. Rebuilding activities boosted economic growth in Japan to 2.0 percent in 2012. The Japanese economy grew by an estimated 1.8 percent in 2013, and is

[35] One of the main countries that contributed resources to the bailout funds was Germany.

expected to grow another 1.7 percent in 2014 and 1.4 percent in 2015. The Canadian economy, the largest trade partner of the United States, has been growing since the global recession of 2009 ended. Canada's economy is expected to grow by 2.3 percent in 2014 and 2.6 percent in 2015.[36]

Developing economies rebounded strongly following the world recession in 2009 and have been the main drivers of global growth over the past few years. While they continue to lead global growth in 2013, some countries are estimated to have grown at a slower pace in 2013 than in 2012. After growing 9.3 percent in 2011, the Chinese economy, the largest U.S. trading partner in Asia and the largest developing economy, grew 7.8 percent in 2012 and an estimated 7.7 percent in 2013. This is the slowest growth rate in more than ten years as authorities seek to rebalance the economy toward more domestic demand and less exports. China's economy is forecast to continue to slow, growing 7.5 percent in 2014 and another 7.3 percent in 2015.

Many countries in South America also experienced slower growth in 2012. The Brazilian economy, the largest economy in South America, grew 2.7 percent in 2011 before slowing to 0.9 percent in 2012. The Brazilian economy rebounded in 2013 growing an estimated 2.4 percent, and is forecast to grow 2.3 percent in 2014 and 2.6 percent in 2015. Slow growth in emerging economies remains a major risk to the global recovery.

Employment

Following the most recent recession, total nonfarm payroll employment fell to a low of 129.7 million jobs in February 2010. Since then, employment gains have been sluggish. Recently, the pace of monthly gains has slowed. For the first three months of 2013, new jobs in the labor market averaged 206,000 per month, since then, the average monthly gain has been only 181,700 jobs. This implies that firms are still cautious about hiring given current economic conditions. Therefore, employment continues to be one of the main concerns of the ongoing economic recovery.

Although several economic indicators have reached or surpassed their pre-recession levels, total nonfarm employment remained 866,000 below the pre-recession peak as of January 2014, 55 months after the recession ended (see Figure 27). Compared to January 2008,

[36] All growth rates for other countries cited in this section are from Blue Chip International Consensus Forecasts, *Blue Chip Economic Indicators*, vol. 39, no. 2, February 2014.

the pre-recession employment peak, private employment remains down only 291,000, and government employment is down 575,000. The employment recovery remains far slower than the pace of employment recoveries following other recessions.

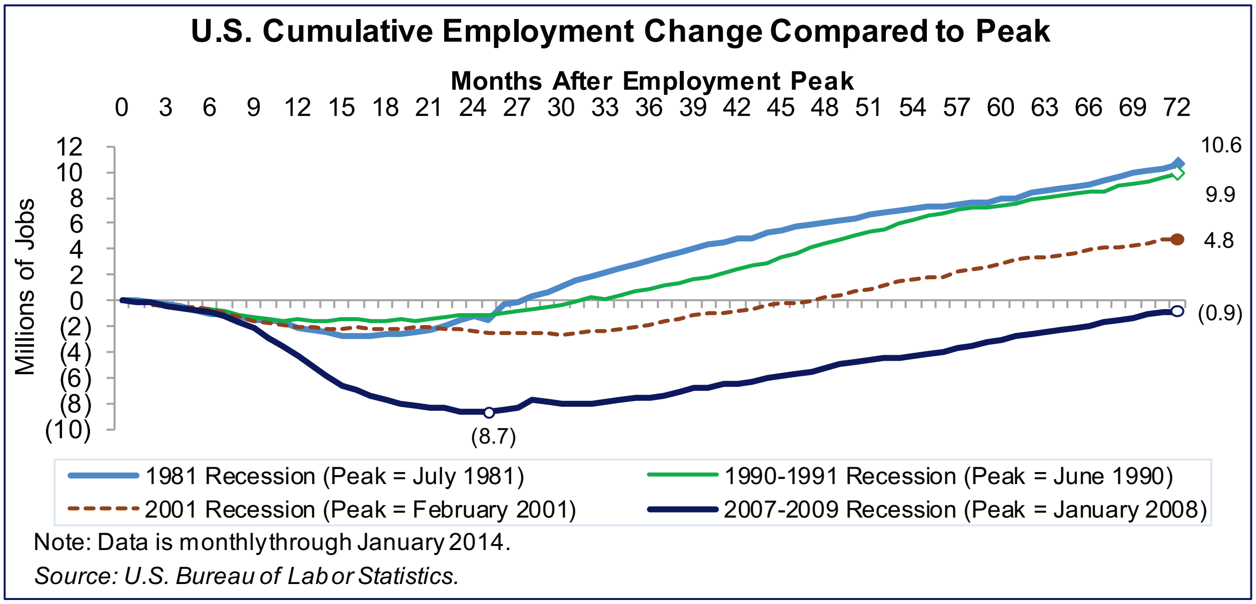


Figure 27

The forecast of U.S. employment shows continued employment growth in 2014 and 2015 (see Figure 28). After growing 1.7 percent in 2013, employment is forecast to grow 1.7 percent year-over-year in 2014, and 1.9 percent in 2015. It is forecast that there will be

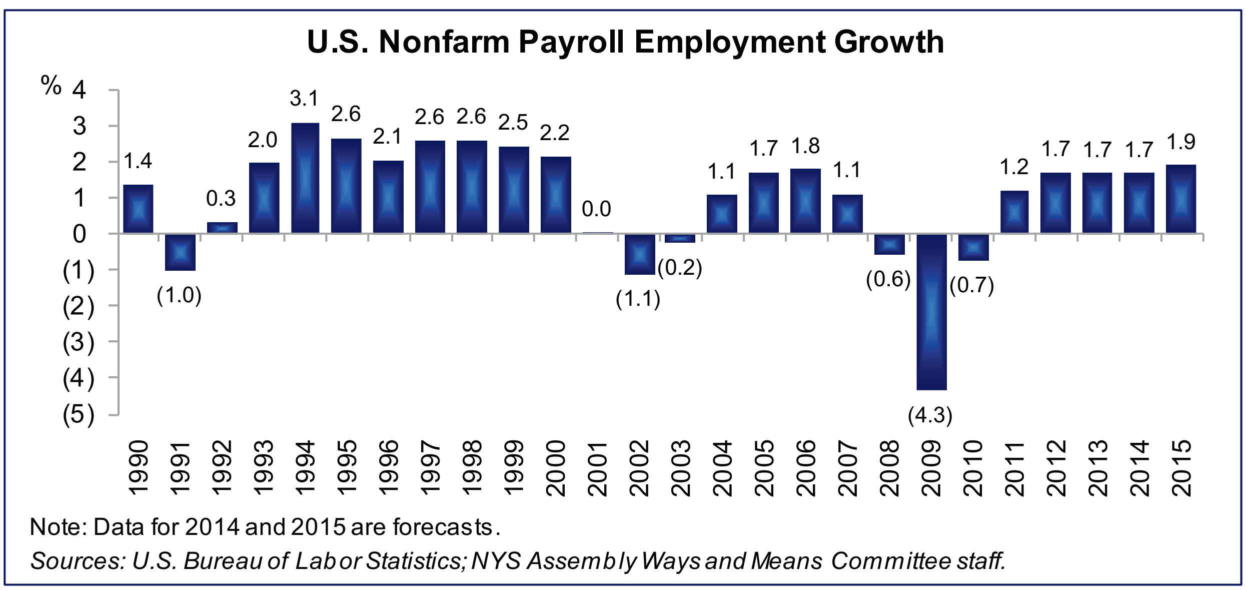


Figure 28

2.3 million more jobs in 2014 than in 2013. This suggests that employment would finally surpass its pre-recession peak during 2014. However, the expected growth rates during the forecast period are well below the employment growth rates achieved during the late 1990s.

Growth in the labor market since the most recent recession can be attributed to service-providing industries. The service-providing sector is currently 2.2 million jobs above its pre-recession peak, while the goods-producing sector remains 3.1 million below (see Figure 1 on page 1).

Of the three major sectors in the goods-producing sector, only mining has shown growth since the end of the most recent recession, and the gains are relatively small when compared to overall employment.[37] The construction and manufacturing sectors have a long way to go to surpass their pre-recession levels.

Construction employment is still almost 1.6 million jobs below its January 2008 level. Employment in the residential and non-residential building sectors remains relatively flat. The one industry within the construction sector that has shown the strongest recovery is the heavy and civil engineering construction industry. However, the industry has only regained about half of the employment lost as a result of the most recent recession.

Manufacturing employment, although growing slightly, also faces challenges as the manufacturing sector deals with not only the fallout from the most recent recession, but also structural changes that were present before the recession. Manufacturing employment remains 1.7 million below the January 2008 level. The recovery in manufacturing sector employment may be attributed to a slight recovery in durable goods manufacturing (see Figure 29). This is likely driven by the increase in spending on consumer durable goods, as well as factors that have made manufacturing conditions more favorable in the United States compared to other countries. This includes lower energy costs, as well as rising wages in countries that were typically used for offshore manufacturing of products then sold in the U.S. Historically, durable goods manufacturing employment has shown a stronger recovery following recessions than nondurable goods manufacturing employment.

[37] Despite declining during the 1990s and early 2000s, mining employment has been on a steady upwards trend since late 2009. Between January 2008 and January 2014, the mining sector added 148,700 jobs.

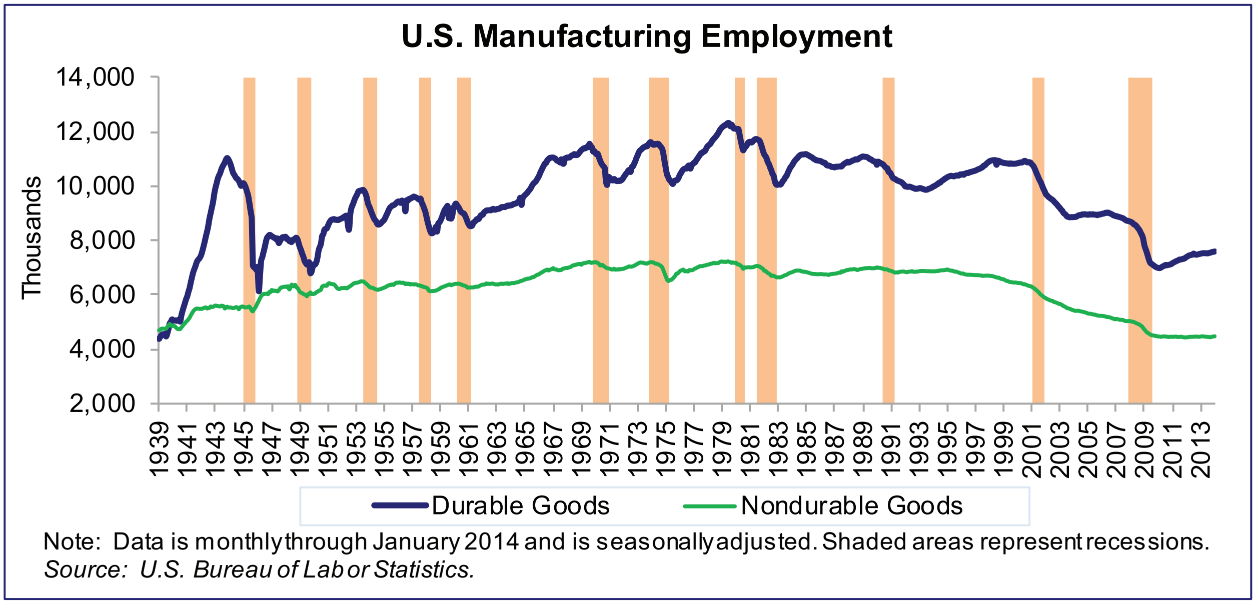


Figure 29

Most of the service sector jobs created since the end of the most recent recession have been in the accommodation and food services sector, and the health care and social assistance sector. Health care and social assistance jobs have been steadily increasing since before the recession. Although employment in the accommodation and food services sector did decline during the recession, the sector's employment recovered and now has more jobs than before the recession. The gains in the sector have been primarily driven by the food and drinking places industry. However, the accommodations industry has not yet returned to its pre-recession peak level.[38]

Employment is estimated to have increased in most sectors in 2013. However, federal government employment was the only sector that declined in 2013 and is expected to continue to decrease throughout the forecast period. Federal government employment will continue to be adversely affected by fallout from government spending cutbacks. The fastest growth in employment in 2014 is anticipated to be in construction, leisure and hospitality, and other services (see Table 3). The real estate, rental and leasing and construction sectors should be helped by the continuing recovery in the housing market.

[38] As of January 2014, employment in the accommodations industry was 19,200 jobs below its January 2008 level.

Table 3

U.S. Employment by Sector (Percent Change)	Actual 2011	Actual 2012	Estimate 2013	Forecast 2014	Forecast 2015
Total	**1.2**	**1.7**	**1.7**	**1.7**	**1.9**
Professional Services	3.0	2.9	3.0	2.7	3.3
Construction	0.2	2.1	3.3	3.4	4.5
Real Estate, Rental, & Leasing	(0.3)	1.4	2.4	2.3	2.5
Leisure & Hospitality	2.4	3.2	3.4	3.0	3.2
Mgmt. of Companies	3.3	4.7	3.4	2.2	2.8
Other Services[1]	2.8	2.7	2.7	3.0	3.1
Education and Health Care[2]	1.7	2.3	1.9	1.6	1.9
Wholesale Trade	1.7	2.2	1.4	1.8	1.8
Retail Trade	1.6	1.1	1.6	1.7	1.2
Transp. & Utilities[3]	2.3	2.3	1.5	2.1	1.9
Finance & Insurance	0.1	1.0	0.9	0.2	0.5
Manufacturing[4]	2.3	2.1	0.8	1.2	1.2
Government	(1.8)	(0.8)	(0.3)	(0.1)	0.3
Federal	(3.9)	(1.3)	(2.0)	(1.7)	(0.4)
State and Local	(1.4)	(0.7)	(0.0)	0.1	0.4
Information	(1.2)	0.1	0.3	(0.2)	0.3

[1] Including administrative, support, and waste management services.

[2] Includes only private employment. Public education and health care employment is included in the government sector.

[3] Transportation, warehousing, and utilities.

[4] Including mining and logging.

Sources: U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

The unemployment rate has fallen to 6.6 percent from a high of 10.0 percent in October 2009. While the employment recovery has somewhat contributed to the fall of the unemployment rate, declines in the unemployment rate are also attributed to discouraged workers leaving the labor force. Overall, labor force participation has been declining since it peaked at the end of the previous century, and the latest recession has seen an acceleration of the drop (see Figure 30).[39] In December 2013, the labor force participation rate was at its lowest level since 1978. Since 2000, the decline has been attributed to the civilian population ages 16 to 54. This decline has been especially rapid for younger age groups (ages 16 to 24). In contrast, participation for the 55 years and older categories increased during the period.

[39] The labor force participation rate is the labor force (persons designated as employed or unemployed by the U.S. Bureau of Labor Statistics) as a percentage of the civilian non-institutional population aged 16 and older.

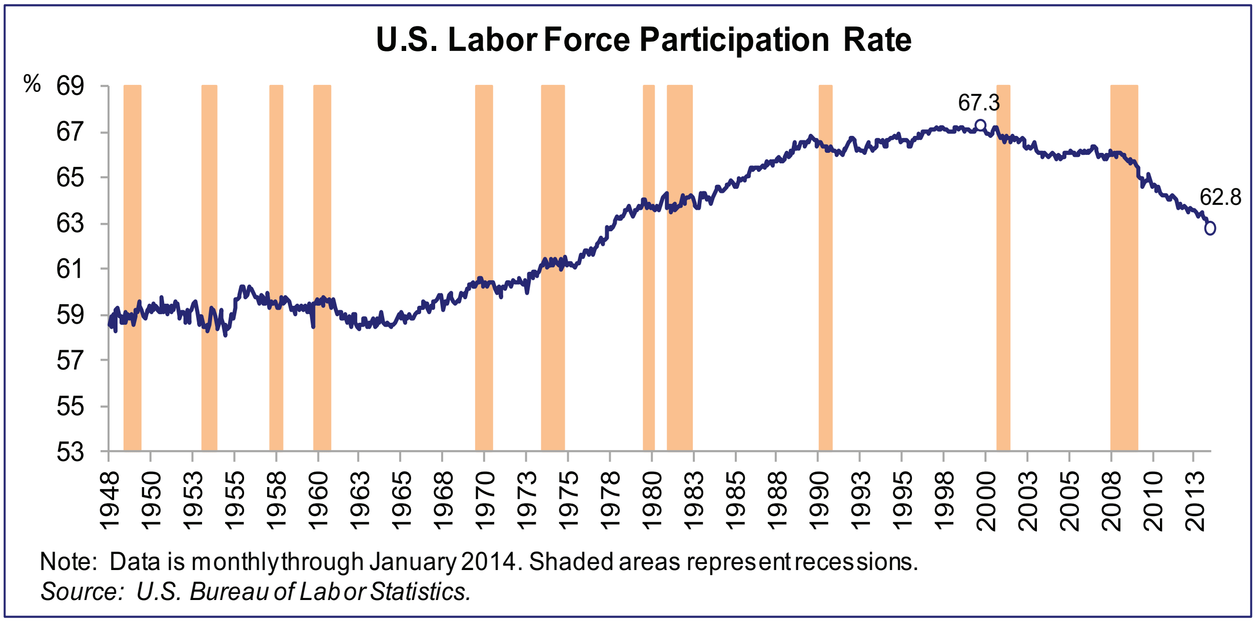


Figure 30

Unemployed workers have also been experiencing a longer duration of unemployment. The average duration hit a high of 40.7 weeks in December 2011, and remains elevated at 35.4 weeks (see Figure 31). Many workers have exhausted their unemployment benefits, leaving them with limited income options.

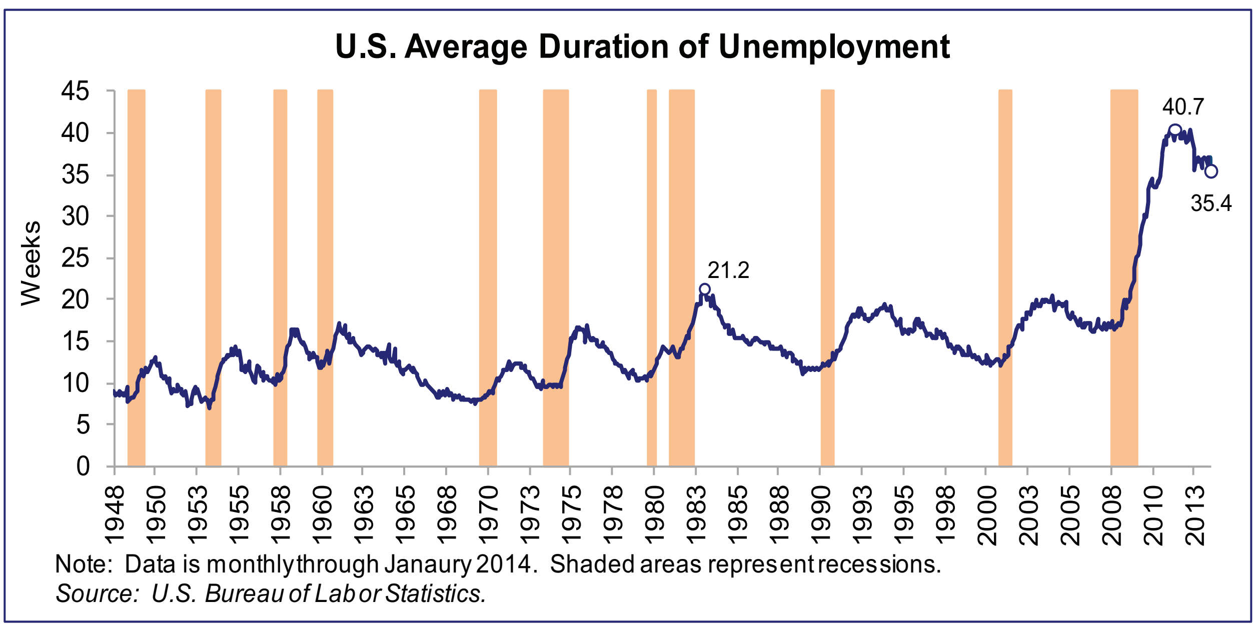


Figure 31

Not all segments of the population have shared in the employment recovery. Workers without any college education have been left behind in the current recovery. The unemployment rate for those without a high school diploma remains at 9.6 percent, 6.4 percentage points above the unemployment rate for those with a bachelor's degree or higher, which is currently 3.2 percent (see Figure 32).

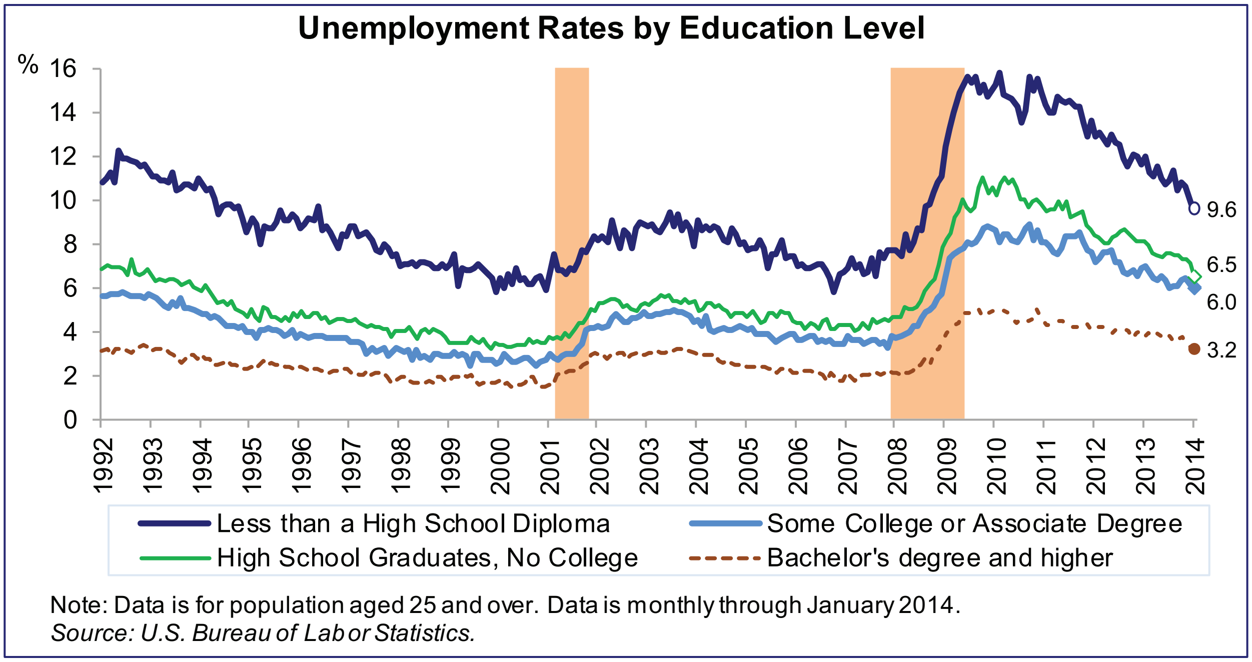


Figure 32

Personal Income

Personal income grew by 4.2 percent in 2012, after increasing 6.1 percent in 2011. The slowdown in personal income growth compared to 2011 stemmed from slower growth in dividend income, rental income, proprietors' income, and employers' contribution to employees' pension and insurance funds. Personal income growth might have been even weaker if not for the strong growth in dividend income and wages and salaries in the fourth quarter of 2012, as firms expecting higher tax rates in 2013 shifted dividend and bonus payouts into 2012.[40] The shift in payments to investors and employees contributed to further deceleration in personal income growth which is estimated to have grown by only 2.8 percent

[40] Effective at the beginning of 2013, the marginal tax rate for individuals earning over the $400,000-$450,000 threshold increased from 35 percent (2003-2012 marginal tax rate) to 39.6 percent. In addition, taxes on dividend income rose from 15 percent to 20 percent. See *The American Tax Relief Act of 2012*, Public Law 112-240, 112th Congress, January 2, 2013.

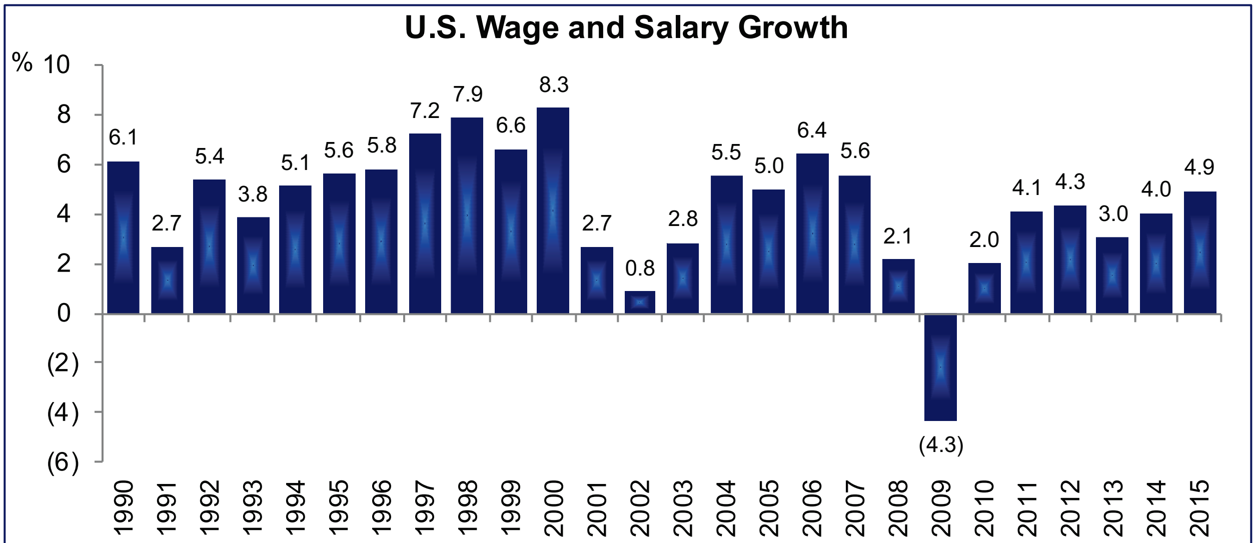
in 2013 (see Figure 33). In addition, the expiration of Social Security payroll tax cuts on January 1, 2013, negatively affected personal income growth as employees had to make higher contributions to government social benefit programs.

Note: Data for 2013 is estimated; 2014 and 2015 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 33

In 2014, personal income is projected to grow 4.3 percent as economic fundamentals strengthen. As the economy continues to improve in 2015, gains in employment, higher interest rates, the expectation of higher wages, and a more profitable business environment will encourage projected growth in personal income of 4.9 percent.

The weak job recovery continues to stymie the acceleration in wages and salaries. Wages and salaries, the largest component of personal income, grew 4.3 percent in 2012 after an increase of 4.1 percent in 2011. The acceleration in growth was primarily due to bonus payments to employees being made in the fourth quarter of 2012 in anticipation of higher tax rates on high income individuals and the expiration of the Social Security payroll tax; otherwise, growth in wages and salaries would have been slower than the previous year. Inevitably, the decision to shift bonuses from 2013 adversely affected the pace of growth in wages and salaries in 2013. Hence, as the slack in the labor market persisted, growth in wages and salaries remained below pre-recession rates at an estimated 3.0 percent in 2013 (see Figure 34). With a large pool of unemployed workers from which to choose, employers still feel little pressure to increase wages. As the impact of higher tax rates dissipates, a stronger overall economic outlook and further gains in employment will support wages and salaries, which is forecasted to grow by 4.0 percent in 2014 and 4.9 percent in 2015.



Note: Data for 2013 is estimated; 2014 and 2015 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 34

In 2012, transfer income grew 2.2 percent as the 3.6 percent cost of living adjustment to social security benefits was moderated by a falloff in other government social benefits. Personal transfer income growth is estimated to have increased to 3.7 percent in 2013, as the exhaustion of extended federal unemployment insurance benefits by many unemployed workers was outweighed by increased spending for Medicare, veterans benefits, social security, and other government social benefits to individuals.[41] Transfer payments are forecast to increase 3.6 percent and 3.8 percent in 2014 and 2015, respectively.

Dividend income was bolstered in 2012 as many corporations doled out dividends in the fourth quarter in anticipation of higher taxes on dividend income at the beginning of 2013. However, new regulations in the financial industry, U.S. banks' exposure to European countries' debt, other global uncertainties, a slowdown in productivity growth at nonfinancial companies,

[41] As of December 2013, 3.7 million people were receiving unemployment benefits. This is 10.8 million fewer people than in November 2009, when the number of recipients reached its highest level. This number continues to fall as people exhaust their regular, state, extended, and emergency benefits. To the extent that the falloff represents exhaustions and not people moving from unemployment benefits to a job, the downward trend is troublesome for personal income. See U.S. Department of Labor, *Monthly Program and Financial Data: State UI Program Data*, http://www.workforcesecurity.doleta.gov/unemploy/5159report.asp (accessed on January 30, 2014).

and weak economic growth weighed on corporate profits tempering dividend income. Consequently, dividend income growth slowed to 9.8 percent in 2012 and slowed further to an estimated 3.0 percent in 2013 due to the shift in dividend payout from 2013. In 2014, dividend income growth is forecast to grow by 7.5 percent as the impact of the shift moderates and firms make dividend payouts to shareholders because of higher profit expectations. Dividend income is projected to increase by 5.7 percent in 2015.

Interest income increased 0.6 percent in 2012 after growing 0.8 percent a year earlier, and is estimated to have risen another 1.4 percent in 2013 as long term interest rates edged higher. Low interest rates are primarily responsible for the subdued growth in interest income. "Operation Twist," implemented by the Federal Reserve in 2011, helped suppress long-term interest rates and consequently interest income was affected.[42] However, interest income growth is anticipated to accelerate to 2.4 percent in 2014 as the Federal Reserve begins the process of unwinding the third round of quantitative easing (QE3) policies in which they purchase long-term Treasury securities to keep interest rates low.[43] In particular, investors will hold a higher volume of Treasury securities in their portfolio as these securities become available increasing their interest receipts. In 2015, interest income is forecast to grow 3.5 percent as the Fed's tapering continues and long-term interest rates increase further.

Prices

The increases in prices have been relatively small following the most recent recession. Even some dramatic increases in energy price have receded over time and have not led to widespread inflation. Overall consumer prices increased 2.1 percent in 2012, but increased only 1.5 percent in 2013 (see Table 4). Lower inflation is mainly due to slower price increases in many components, including energy products, food and beverages, transportation, medical care, education and communication, and other goods and services.

[42] The idea behind "Operation Twist" was that the Federal Reserve buys long-term bonds and sells short-term (up to three-year) Treasuries, driving down long-term interest rates; in this case, the Fed sold $400 billion in short-term Treasuries and bought an equal amount in long-term Treasuries, beginning in October 2011 and ending in June 2012. The short-term Treasury securities will have maturities of three years or less, while the long-term Treasury securities have maturities of six years or more. Investors holding long-term bonds will see their interest income dip. See Board of Governors of the Federal Reserve System, *Press Release*, September 21, 2011, http://www.federalreserve.gov/newsevents/press/monetary/20110921a.htm.

[43] See Board of Governors of the Federal Reserve System, *Press Release*, September 13, 2012, http://www.federalreserve.gov/newsevents/press/monetary/20120913a.htm.

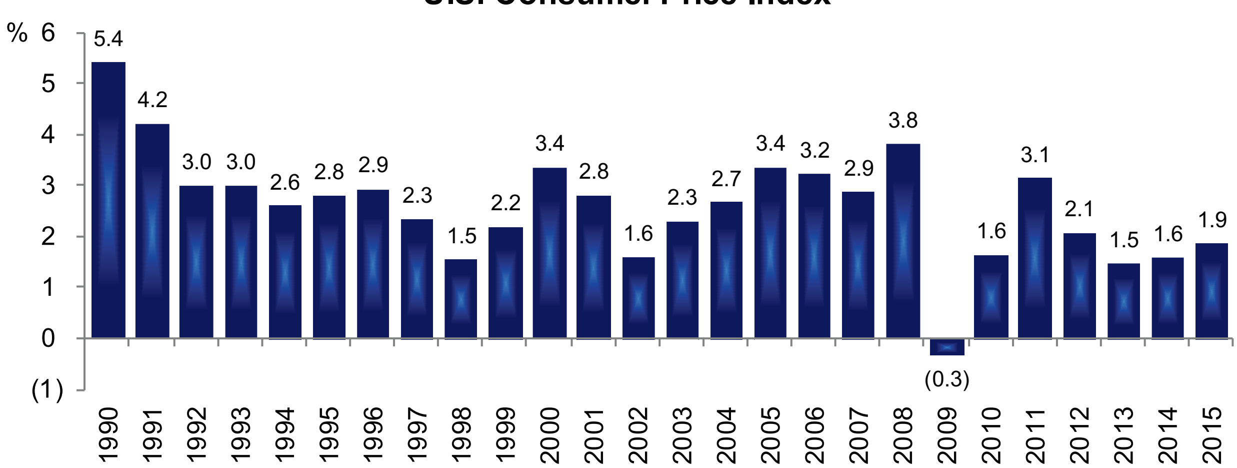
Table 4

U.S. Consumer Price Index by Category (Percent Change)	2007	2008	2009	2010	2011	2012	2013
All Items	**2.9**	**3.8**	**(0.3)**	**1.6**	**3.1**	**2.1**	**1.5**
Medical Care	4.4	3.7	3.2	3.4	3.0	3.7	2.5
Services	3.3	3.5	1.4	0.8	1.7	2.1	2.4
Housing	3.2	3.2	0.4	(0.4)	1.3	1.7	2.1
Other Goods and Services	3.6	3.6	6.7	3.4	1.6	1.9	1.7
Education and Communication	2.4	3.4	3.0	2.0	1.2	1.8	1.5
Food & Beverages	3.9	5.4	1.9	0.8	3.6	2.5	1.4
Apparel	(0.4)	(0.1)	1.0	(0.5)	2.2	3.4	0.9
Transportation	2.2	5.7	(8.1)	7.9	9.7	2.4	0.0
Recreation	0.5	1.6	0.9	(0.8)	0.0	1.2	0.5
Energy	5.7	13.7	(18.1)	9.5	15.2	0.9	(0.7)
All Items Less Food & Energy (Core)	2.3	2.3	1.7	1.0	1.7	2.1	1.8

Source: U.S. Bureau of Labor Statistics.

Consumer prices are expected to grow, but at a relatively slow pace of 1.6 percent in 2014 and 1.9 percent in 2015 (see Figure 35). Throughout the forecast period, it is likely that downward pressure from slack in the labor market and growth in productivity will prevail, keeping inflation somewhat low. In addition, productivity growth and slow growth in unit labor costs will help keep price increases modest. There is some risk that as the economic recovery strengthens inflationary pressures will increase, causing prices to grow at a higher rate than expected.

U.S. Consumer Price Index



Note: Data for 2014 and 2015 are forecasts.
Sources: U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

Figure 35

Low inflation has some broad implications for the economy. Businesses that feel inflation will be low long-term do not quickly raise prices as a result of short-term pricing pressures. That may be beneficial to consumers, as prices for the goods and services they use on a regular basis stay low. This is particularly helpful to consumers if wage growth, adjusted for inflation, is slow. Low inflation also impacts the actions taken by the Federal Reserve. The Federal Reserve can delay raising rates as long as inflation continues to be lower than their target.[44]

Energy Prices

Energy prices represent a critical issue for the U.S. economy, and remain one of the most volatile risk factors for the health of the economy. Current political and geographical considerations, as well as weather conditions (such as the possibility of hurricanes or a cold winter) add uncertainty to future energy prices, including prices of oil, gasoline, and natural gas.

Rising energy prices present a concern for the overall economy. Households face both a direct impact (such as rising gasoline and home heating oil prices) and an indirect impact (i.e., producers passing their higher energy costs to consumers in the form of higher prices on final products).

In 2013, most energy prices were relatively flat compared to 2012 (see Table 5). One notable exception was natural gas prices, which increased 35.6 percent in 2013. However, natural gas prices remain low when compared to historical levels. Gasoline prices were relatively flat compared to 2012. Gasoline consumption in the U.S. declined in 2013 relative to 2012. The Energy Information Administration attributes the changes in gasoline use to several factors, including relatively lower gasoline prices being outweighed by downward pressure from slow economic growth, and vehicle efficiency. Currently, slightly lower price levels that spur increased demand are being offset by increases in vehicle efficiency.[45]

[44] Transcript of Chairman Bernanke's Press Conference, September 18, 2013, http://www.federalreserve.gov/mediacenter/files/FOMCpresconf20130918.pdf.

[45] U.S. Energy Information Administration, Petroleum & Other Liquids, *This Week in Petroleum*, "What Is Driving the Declining U.S. Gasoline Consumption?" September 5, 2013, http://www.eia.gov/oog/info/twip/twiparch/2013/130905/twipprint.html.

Table 5

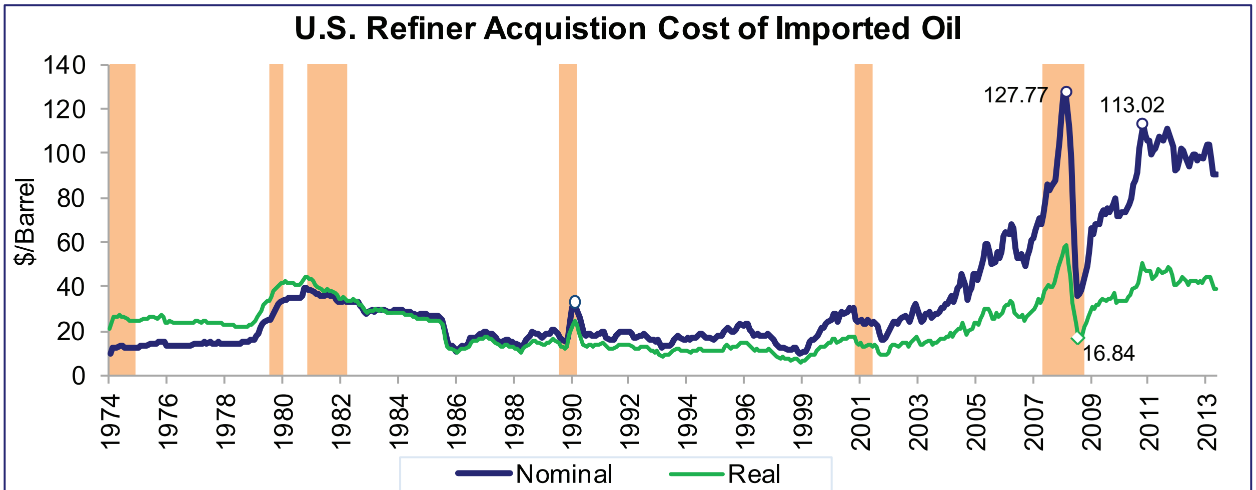
U.S. Energy Prices Annual Average								
		2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Crude Oil - RAC	Level ($)	67.04	92.77	59.17	75.86	102.63	101.09	98.02
	Percent Change	**13.6**	**38.4**	**(36.2)**	**28.2**	**35.3**	**(1.5)**	**(3.0)**
Crude Oil - WTI	Level ($)	72.34	99.67	61.95	79.48	94.88	94.05	97.91
	Percent Change	**9.5**	**37.8**	**(37.8)**	**28.3**	**19.4**	**(0.9)**	**4.1**
Crude Oil - Brent	Level ($)	72.44	96.94	61.74	79.61	111.26	111.63	108.64
	Percent Change	**11.2**	**33.8**	**(36.3)**	**28.9**	**39.8**	**0.3**	**(2.7)**
Natural Gas	Level ($)	6.97	8.86	3.94	4.37	4.00	2.75	3.73
	Percent Change	**3.3**	**27.1**	**(55.5)**	**10.9**	**(8.5)**	**(31.3)**	**35.6**
Heating Oil	Level ($)	2.03	2.86	1.65	2.13	2.95	3.02	2.93
	Percent Change	**12.8**	**40.6**	**(42.3)**	**29.2**	**38.6**	**2.4**	**(3.0)**
Gasoline	Level ($)	2.80	3.25	2.35	2.78	3.52	3.62	3.51
	Percent Change	**8.8**	**16.1**	**(27.5)**	**18.1**	**26.6**	**2.8**	**(3.0)**

Note: All levels are nominal. Oil prices are dollars per barrel. The refiner acquisition cost (RAC) of oil is a volume weighted average price of imported oils. Natural gas figures are average of monthly Henry Hub Spot Price, dollars per thousand cubic feet; heating oil figures are for No. 2 heating oil, NY Harbor Spot Price, dollars per gallon; gasoline prices are for retail, regular grade, dollars per gallon.
Source: U.S. Energy Information Administration.

Oil prices in particular remain at high levels when compared to historical values; although oil prices are below the 2008 level, they remain a concern (see Figure 36). However, rising U.S. crude oil production has contributed to downward pressure on oil prices. In addition, rising U.S. oil production has helped to offset supply disruptions in other parts of the world.[46] In October 2013, U.S. production reached 7.7 million barrels per day, the highest monthly level of production in 25 years.[47] In 2012, the U.S. was the world's largest petroleum consumer, and net imports accounted for about 40 percent of the petroleum consumed.[48] However, the country's reliance on foreign imports to meet demand has been declining since 2005. Not only has U.S. oil production been increasing, but U.S. energy consumption has also been on the decline. Soft

[46] Keith Johnson and Russell Gold, "U.S. Oil Notches Record Growth," *Wall Street Journal*, updated June 12, 2013, Business section, http://online.wsj.com.
[47] U.S. Energy Information Administration, *Short-Term Energy Outlook,* November 13, 2013
[48] Petroleum includes crude oil and petroleum products, which include unfinished oils, liquefied petroleum gases, pentanes plus, aviation gasoline, motor gasoline, naphtha-type jet fuel, kerosene-type jet fuel, kerosene, distillate fuel oil, residual fuel oil, petrochemical feed stocks, special naphthas, lubricants, waxes, petroleum coke, asphalt, road oil, still gas, and miscellaneous products. See U.S. Energy Information Administration, "How Dependent Are We On Foreign Oil?" *Energy in Brief*, last updated May 10, 2013, http://www.eia.gov/energy_in_brief/article/foreign_oil_dependence.cfm.

economic growth, reduced demand from relatively higher prices, and increased fuel efficiency may all be playing a role in lessening demand for oil in the U.S.

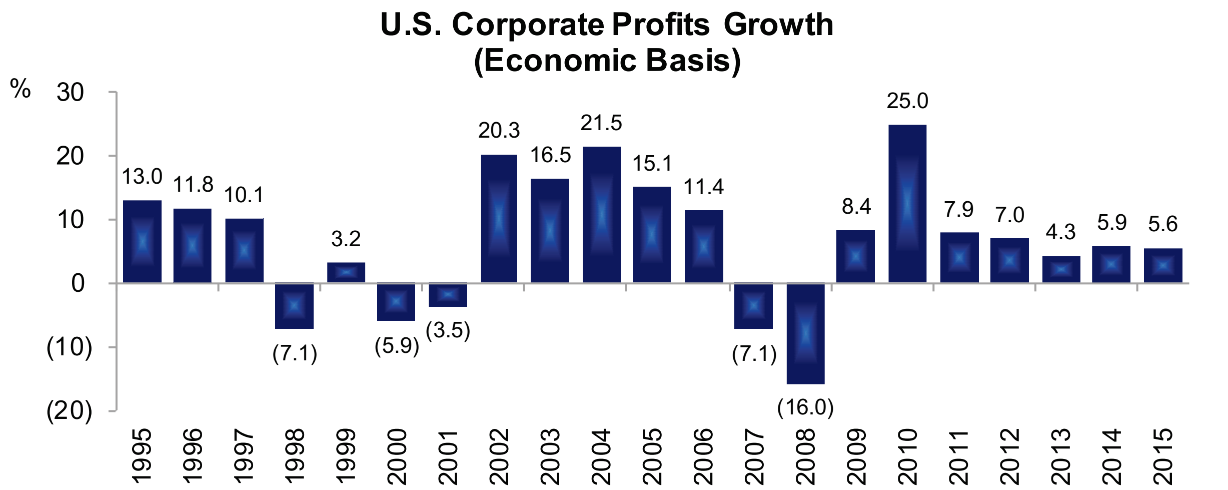


Note: Data is monthly through December 2013. Real values are inflation-adjusted using CPI (All urban consumers 1982-84 = 100). The refiner acquisition cost of oil is a volume weighted average price of imported oils. Shaded areas represent recessions.
Sources: U.S. Bureau of Labor Statistics; U.S. Energy Information Administration.

Figure 36

Corporate Profits

Corporate profits are estimated to have grown 4.3 percent to $2.1 trillion in 2013 after gaining 7.0 percent in 2012 (see Figure 37). Profits at domestic financial and nonfinancial firms grew in the first three quarters of 2013 compared to the same time period in 2012, but at slower rates compared to the same period in the previous year. Profits at U.S. firms abroad declined 2.9 percent in the first three quarters of 2013 compared to the first three quarters of 2012, following an annual decrease of 4.0 percent in 2012, as growth in emerging economies slowed. Corporate profits growth is forecast to accelerate in 2014 and 2015 compared to 2013, growing 5.9 percent and 5.6 percent, respectively. Gains in corporate profits will be supported by stronger growth in productivity, advances in financial markets, and weak wage growth.

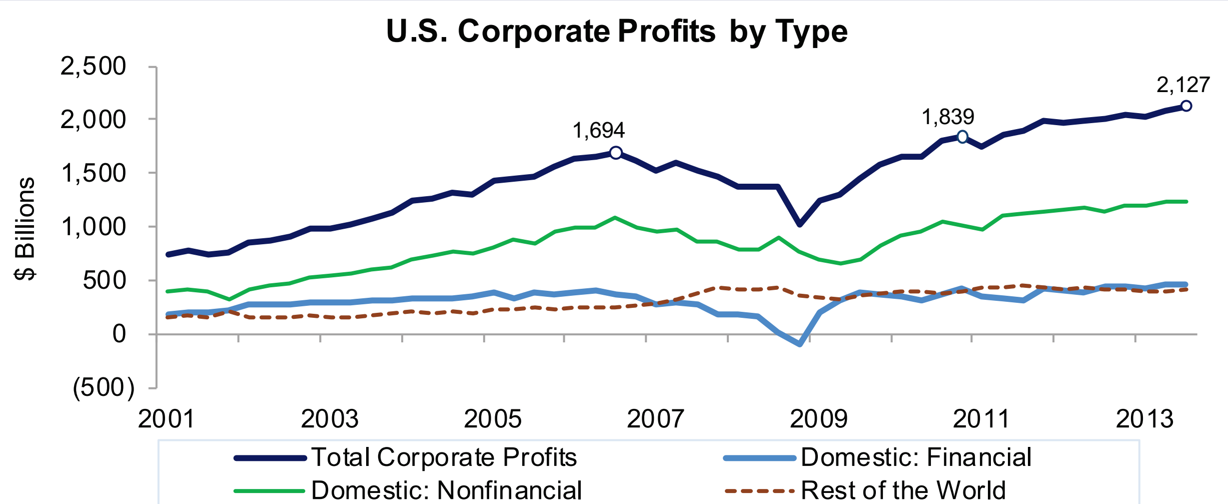


Note: Data for 2013 is estimated; 2014 and 2015 are forecasts.

Sources: Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 37

In the first three quarters of 2013, smaller profit growth at domestic nonfinancial firms was due to slowed productivity growth, and rising unit labor costs (see Figure 38). This trend is forecast to reverse in the forecast period. Though productivity is forecast to grow faster than unit labor costs in 2014 and 2015, corporate profit growth is forecast to remain below its historical average growth rate. Corporate profits will be affected by changes in monetary policy; as the Federal Reserve begins to taper the quantitative easing program, interest rates will rise, pushing up the cost of business.



Note: Data is seasonally adjusted at an annual rate (SAAR) and is quarterly through 2013:Q3.

Source: Bureau of Economic Analysis.

Figure 38

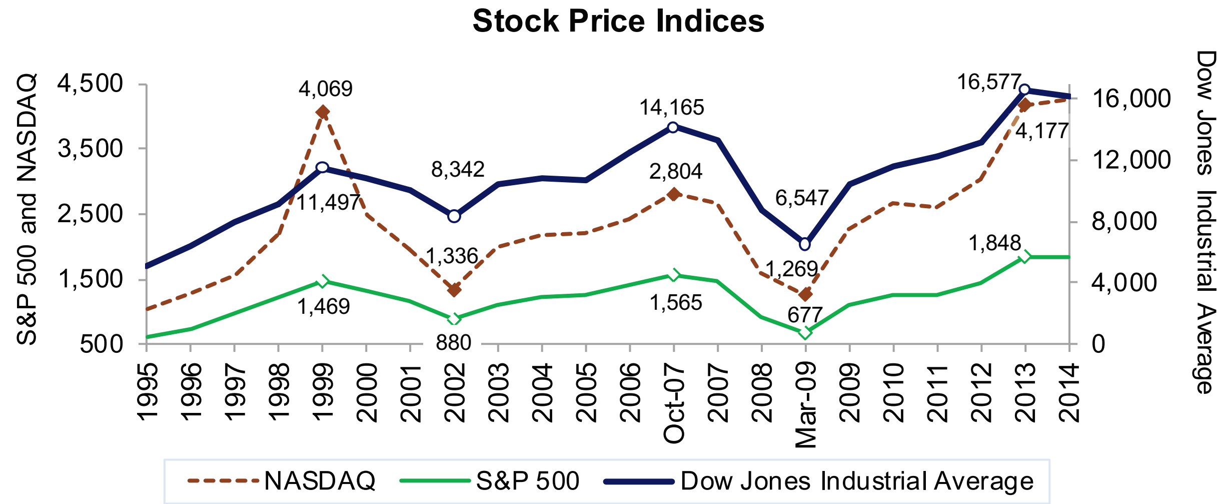
Higher interest rates will affect profit gains at financial firms and in foreign earnings. Domestically, higher interest rates will slow demand for loan creation and refinancing. In addition, profit growth will be curbed by the evolving regulatory environment and a hangover of ongoing lawsuits at several large financial institutions.

Though the rate of growth compared to previous years has slowed, U.S. corporations remain highly profitable, with total profits approximately 20 percent above the 2006 pre-recession peak. Labor cost growth remains relatively low, supporting continued gains at nonfinancial firms. Additionally, prospects for global growth are improving as are equity markets and employment growth, which will help to boost final-sales and mitigate some of the impact of opposing factors on corporate profit growth.

Stock Market

The stock market rebounded strongly after plunging to its recent trough during the recession. Lower interest rates and improving economic conditions have helped boost equity markets as investors moved into riskier investments that yielded higher returns. In addition, corporate profits gained sharply in the early part of recovery, further supporting equity gains.

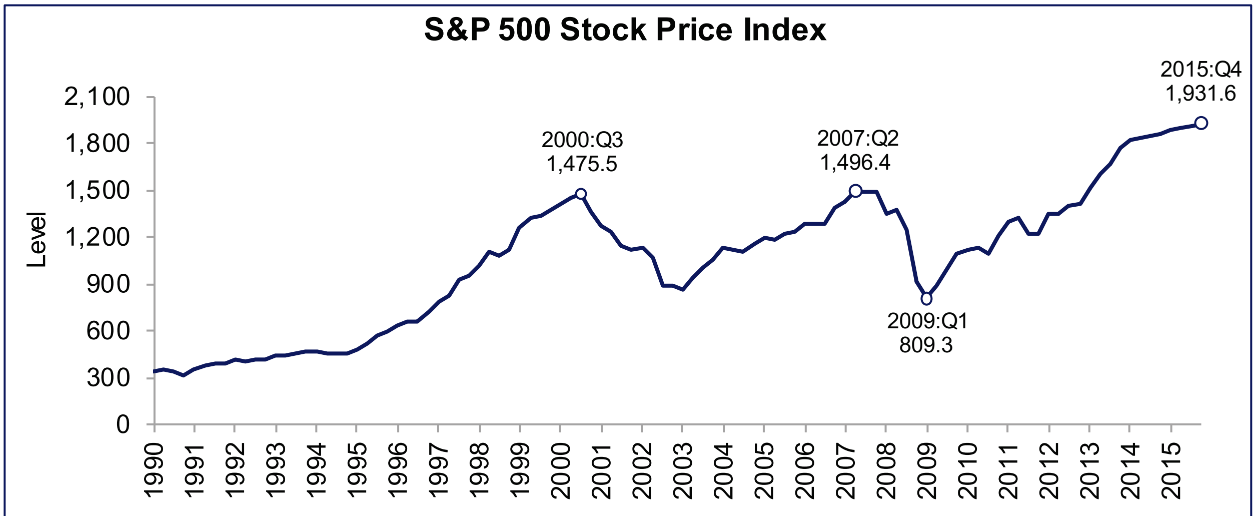
The market grew rapidly from its trough in March 2009, and by the end of 2009 the S&P 500 Stock Price Index (S&P 500) had increased almost 50 percent. Stock prices continued to rise moderately after 2009, while corporate profits increased strongly. By the end of 2010, corporate profits had already surpassed their pre-recession level. In addition, the S&P 500 price to earnings ratio (P/E ratio) had come down to below what it was during most of 1991 through 2010, signaling that equity was a good investment. Despite several corrections and setbacks as a result of global events that raised uncertainty (such as the European debt crisis, unrest in the Middle East and North Africa, and a natural disaster in Japan), the market continued to gain steadily. All stock market indices surpassed their previous peak in mid-2013, subsequently pushing the P/E ratio up in the second half of 2013 (see Figure 39).



Note: Data is at close of December 31 each year unless otherwise indicated. The last period is the February 21, 2014, closing value.
Sources: Securities Industry and Financial Markets Association; Wall Street Journal.

Figure 39

The stock market is expected to continue to improve throughout the forecast period (see Figure 40). The S&P 500 averaged 1,642.5 points in 2013, a growth of 19.1 percent from 2012. As the economy continues to improve, the index is forecast to grow further by 12.1 percent in 2014 and another 3.6 percent in 2015.



Note: Data is quarterly through 2015:Q4; the first forecast period is 2014:Q1.
Sources: Standard & Poor's; NYS Assembly Ways and Means Committee staff.

Figure 40

Looking forward, however, the market is facing several headwinds and high uncertainty remains. The recent capital outflows and currency depreciations in emerging market economies; slowing corporate earnings; uncertainty related to U.S. fiscal policy; and the Federal Reserve's monetary policy pose risks to the stock market outlook.

Interest Rates

The Federal Reserve has held the federal funds target rate at 0.0 to 0.25 percent since December 16, 2008, the lowest level on record. As a result, the federal funds rate, which averaged 5.0 percent in 2006 and 2007, averaged only 0.2 percent in 2009 and 2010, and fell to 0.1 percent in 2011 and 2012.

In December 2012, the Federal Reserve announced that they would link future rate changes to the threshold levels of unemployment and inflation.[49] In July 2013, the Federal Reserve indicated that they would start winding down the $85 billion per month bond-buying program, which has been in place since September 2012 (QE3).[50] As economic activity expanded only modestly in the first half of 2013 and job creation was much slower in the second and third quarters of 2013 than in the first quarter, the Federal Reserve decided in September 2013 to continue the program while maintaining other current policies. The Federal Reserve decided to modestly scale back the pace of its asset purchase targets at the December 2013 and January 2014 meetings.

As the unemployment rate remains elevated, and current and longer-term inflation expectations remain stable, the current forecast assumes that the Federal Reserve will maintain the rate within the current target range through mid-2015 (see Figure 41). After averaging 0.1 percent in 2011, 2012, and 2013 the federal funds rate is forecast to average 0.1 percent again in 2014 before rising to 0.4 percent in 2015. Similarly, the three-month Treasury bill yield is forecast to average 0.1 percent in 2014 and 0.3 percent in 2015.

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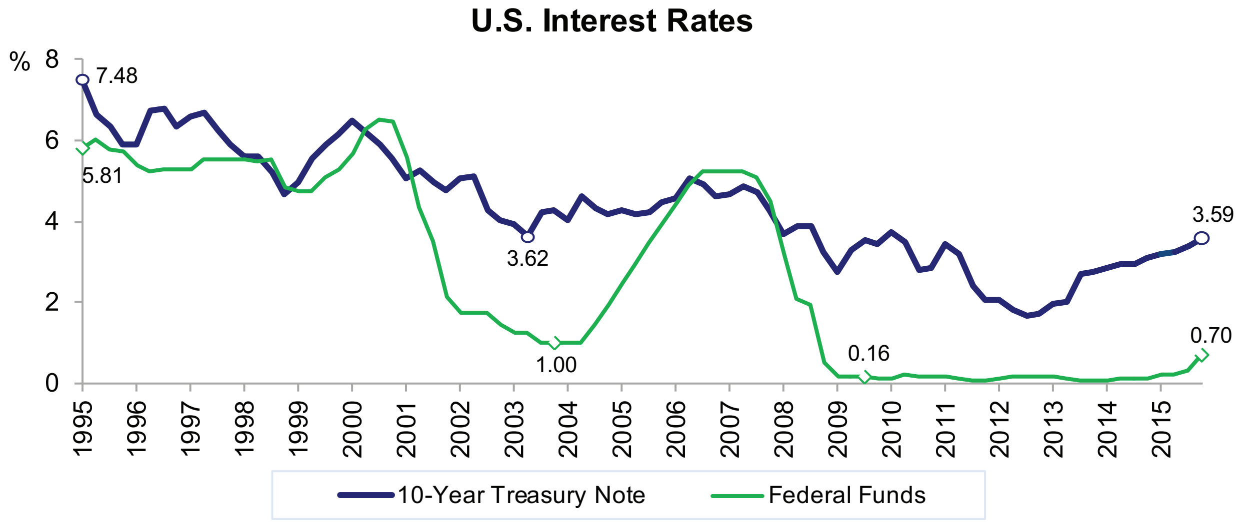
[49] The Federal Reserve will hold the rate unchanged until the unemployment rate falls to 6.5 percent or inflation is forecast to reach 2.5 percent. See Board of Governors of the Federal Reserve System and the Federal Open Market Committee, minutes of the Committee meeting held on December 11-12, 2012, release date January 3, 2013.

[50] The program originally included the Federal Reserve buying mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month.



Note: Data is quarterly through 2015:Q4; the first forecast period is 2014:Q1.
Sources: Federal Reserve; NYS Assembly Ways and Means Committee staff.

Figure 41

The global recession and the debt crisis in Europe that emerged in late 2009 caused investors to shift their investments to Treasury securities, which put downward pressure on bond yields. The 10-year Treasury rate, which averaged almost 5 percent in 2006, averaged below 4 percent between 2008 and 2010. Additional domestic demand for long-term U.S. Treasuries under the quantitative easing policies continued to help maintain low long-term interest rates. As a result, Treasury security yields remained low in 2011 and 2012. The 10-year Treasury rate averaged 2.8 percent in 2011 and fell further to 1.8 percent in 2012.

As the global economy is expected to recover at a stronger pace, investors are likely to shift their investments further away from bonds to seek higher returns. Whereas extra demand for bonds, a result of quantitative easing policies, will eventually dissipate, bond yields are likely to rise throughout the forecast period. The 10-year Treasury rate averaged 2.4 percent in 2013, and is forecast to increase to 3.0 percent in 2014 and 3.4 percent in 2015.

United States Forecast Comparison

The NYS Assembly Ways and Means Committee staff's forecast for overall national economic growth in 2014 is 2.7 percent (see Table 6). The staff's forecast is equal to the Division of the Budget and Global Insight. The staff's forecast is 0.2 percentage point below the Blue Chip Consensus and Macroeconomic Advisers, and 0.4 percentage point below Moody's Economy.com.

Table 6

U.S. Real GDP Forecast Comparison (Percent Change)	Actual 2012	Forecast 2013	Forecast 2014	Forecast 2015
Ways and Means	2.8	1.9	2.7	3.1
Division of the Budget	2.8	1.9	2.7	2.9
Blue Chip Consensus	2.8	1.9	2.9	3.0
Moody's Economy.com	2.8	1.9	3.1	4.1
Macroeconomic Advisers	2.8	1.9	2.9	3.1
IHS Global Insight	2.8	1.9	2.7	3.3

Sources: NYS Assembly Ways and Means Committee staff; NYS Division of Budget, FY 2014-15 Executive Budget, January 2014; Blue Chip Economic Indicators, February 2014; Moody's Economy.com, February 2014; Macroeconomic Advisers LLC, February 2014; IHS Global Insight, February 2014.

The Assembly Ways and Means Committee staff's forecast for overall national economic growth in 2015 is 3.1 percent. The staff's forecast is 0.2 percentage point above the Division of the Budget, 0.1 percentage point above the Blue Chip Consensus, 1.0 percentage point below Moody's Economy.com, and 0.2 percentage point below IHS Global Insight. The staff's forecast is equal to the Macroeconomic Advisers' forecast.

New York State Forecast

NEW YORK STATE FORECAST

New York State's economy continues a slow, but steady recovery from the most recent recession (see Table 7). Employment is above pre-recession levels, with growth driven by the service-producing sector. Wage growth, although it has not reached the rates seen in 2006 and 2007, has rebounded from its trough in 2009. Personal income is expected to grow during the forecast period at a rate close to those experienced in other recoveries. As wage income accounts for about half of personal income, the growth pattern of wages will significantly impact personal income growth going forward.

Table 7

New York State Economic Outlook (Percent Change)

	Actual 2011	Actual 2012	Estimate 2013	Forecast 2014	Forecast 2015
Employment	1.2	1.3	1.1	1.2	1.3
Personal Income	5.3	3.1	1.8	5.0	5.1
Total Wages [calendar year basis]	3.7	3.0	1.6	4.6	4.7
Base Wages	4.4	3.2	3.2	4.1	4.3
Variable Compensation	(0.9)	0.8	(11.3)	9.3	7.8
Total Wages [fiscal year basis]	1.9	3.0	2.6	4.6	4.8
Base Wages	4.6	2.9	3.5	4.0	4.4
Variable Compensation	(16.1)	3.5	(5.0)	9.4	8.0
New York Area CPI	2.8	2.0	1.7	1.8	2.0

Note: Base wages and variable compensation are estimated by the NYS Assembly Ways and Means Committee staff and sum to total wages. New York area CPI is based on the New York-Northern NJ-Long Island, NY-NJ-CT-PA CPI-U series from the U.S. Bureau of Labor Statistics. For fiscal year variables, 2011 represents SFY 2011-12, etc.

Sources: U.S. Bureau of Economic Analysis; NYS Department of Labor; U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

During the most recent recession and the early stage of the recovery, New York State employment outperformed that of the nation. Nonfarm employment growth in the State surpassed the nation four years in a row from 2007 to 2010. One of the main reasons for this was that the State's housing market fared much better during the downturn than the nation's housing market, leading to less of a decline in construction sector employment. Now, further into the economic recovery, New York State employment has continued a slow, but steady employment recovery, but many of the jobs are lower paying service-producing jobs, which may have effects long-term for wage growth.

The pattern of wage growth has significant implications for the revenue outlook in the State. Both components of wages, variable wages and base wages, are expected to contribute to the continued growth in wages.[51] As finance and insurance variable wages account for roughly 50 percent of total variable wages, much of the wage outlook for the State remains dependent upon the performance of the financial sector, where significant risks exist. The sector continues to transition because of changing compensation practices, government regulations, cost cutting, and changes in staffing levels. Nevertheless, despite the changes, the sector will continue to be crucial to the State outlook. Although the financial sector accounts for only 6 percent of total non-farm employment, it comprises for a significantly larger share of total State wages.

Employment

During the two decades prior to the most recent recession, New York State employment growth almost always lagged that of the nation. Nonfarm employment in the State grew only 6.3 percent from 1990 to 2007, compared to 25.7 percent nationwide as employment growth was slower than in the nation in almost all sectors (see Table 8). The only sector in which the State outperformed the nation in employment growth during this period was other services, which grew 30.3 percent in the State compared to 28.9 percent nationwide. The State also experienced a much faster decline in employment than the nation in the manufacturing sector, which was the third largest sector in the State in 1990, but slipped to seventh in 2007.

During the most recent recession and the early stage of recovery, however, New York State employment grew faster than that of the nation. State employment growth surpassed the nation four years in a row from 2007 to 2010. During this period, State employment outperformed the nation in most sectors, especially in the construction sector, where employment loss in the State was much less than in the nation as the New York housing market fared better than that of the nation (see Table 8).

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[51] Variable compensation figures are based on NYS Assembly Ways and Means Committee staff estimates. Variable compensation consists primarily of cash bonuses and exercised stock options. There is no known series of data for state or national variable compensation. The Committee staff estimates variable compensation based on seasonal variations in wage patterns. These seasonal patterns are analyzed at the NAICS three-digit level. The growth in this variation over time is also accounted for in the estimate. Since this estimate is based on seasonal variation, it may underestimate bonuses and commissions that come at frequent intervals throughout the year. It also may underestimate stock options to the extent that they are exercised throughout the year. On the other hand, in some cases non-variable pay may be included in variable compensation if there are regular seasonal patterns (e.g., if overtime regularly occurs in a certain quarter). Therefore, variable compensation contains high uncertainty—even in terms of the data history.

Table 8

New York State vs. U.S. Employment Change by Sector (Percent Change)						
	1990-2007		Recession 2007-2010		Recovery 2010-2012	
	New York State	U.S.	New York State	U.S.	New York State	U.S.
Total Nonfarm	**6.3**	**25.7**	**(1.9)**	**(5.6)**	**2.8**	**2.9**
Education & Health Care[1]	48.2	66.8	6.4	6.6	3.7	4.0
Professional and Business Services	36.6	76.9	(3.6)	(7.5)	7.1	8.0
Other Services[2]	30.3	28.9	0.4	(3.0)	4.1	2.0
Leisure & Hospitality	22.1	44.6	4.9	(2.9)	9.1	5.4
Real Estate, Rental, & Leasing	10.4	32.4	(5.0)	(10.8)	1.2	0.9
Construction	9.1	44.8	(12.9)	(27.7)	1.6	2.3
Retail Trade	3.8	17.7	(2.1)	(6.9)	4.4	2.9
Government	1.9	20.7	0.7	1.2	(3.4)	(2.6)
Management	(1.5)	1.7	0.5	0.1	0.3	3.4
Information	(5.6)	12.8	(6.1)	(10.7)	3.0	(1.1)
Transportation & Utilities[3]	(8.6)	20.8	(4.6)	(6.9)	0.4	4.8
Finance & Insurance	(10.8)	24.2	(9.6)	(6.7)	2.3	1.3
Wholesale Trade	(13.2)	14.2	(8.7)	(9.4)	2.6	4.1
Manufacturing[4]	(43.8)	(21.6)	(17.1)	(16.9)	0.3	3.4

Note: Sector definitions are slightly different from other tables in this section.

[1] Includes only private employment. Public education and health care employment is included in the government sector.

[2] Does not include administrative, support, and waste management services.

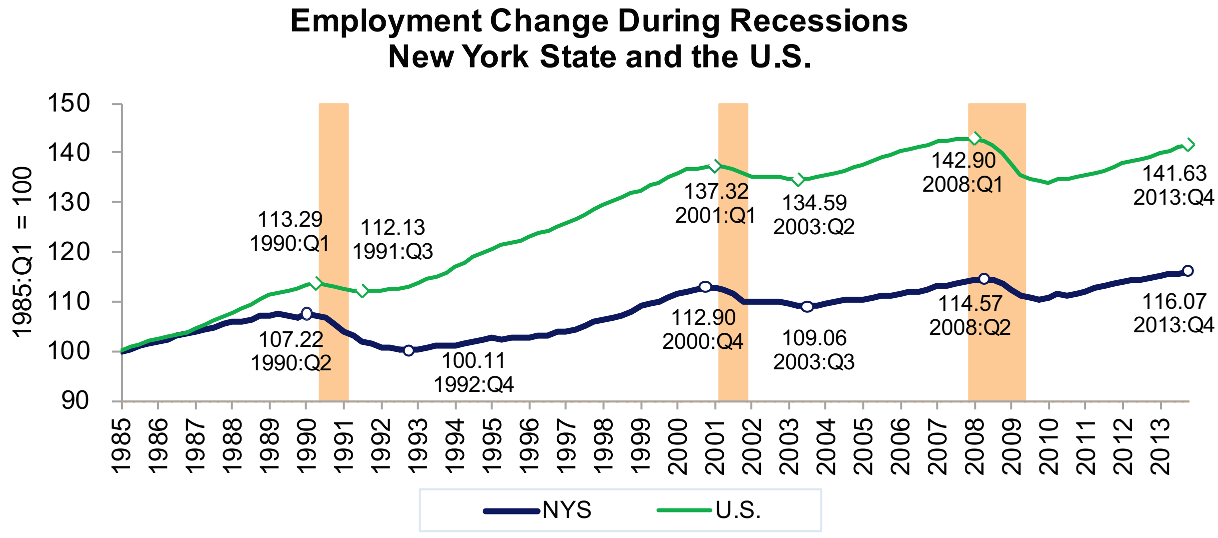
[3] Transportation, warehousing, and utilities.

[4] Does not include mining.

Source: Bureau of Labor Statistics.

Nonfarm employment in the State entered the most recent downturn one quarter after the nation and started to rebound one quarter before the nation. From peak to trough, the State lost 3.6 percent of total jobs compared to 6.2 percent for the nation. In contrast, during the 2001 recession, New York lost 3.4 percent of total nonfarm employment from peak to trough (quarterly numbers), compared to a 2.0 percent loss for the nation.

Since the recovery started, the rate of employment growth in the State has been somewhat comparable to that of the nation (see Figure 42). New York State employment grew 1.2 percent in 2011, the same rate as in the nation. In 2012, nonfarm employment in the State grew 1.3 percent, compared to 1.7 percent in the nation. As the State lost a substantially smaller percentage of jobs than the nation, total nonfarm payroll employment in the State has already surpassed its previous peak, while national employment remains below its previous peak.



Note: Data is quarterly through 2013:Q4. Shaded areas represent recessions.
Source: U.S. Bureau of Labor Statistics.

Figure 42

Unlike previous recoveries, when employment growth was relatively balanced among low- and high-paid sectors, the gains in employment during the current recovery have been mainly in lower paying jobs. From 2009 to 2012, three of the four sectors that posted the fastest annual employment growth were the sectors that had the lowest average wages in the State. The State continued to lose jobs in all sectors with average wages between $50,000 and $70,000 (see Table 9).

Table 9

New York State Nonfarm Employment Recovery by Sector			
	2003-2008 (%)	2009-2012 (%)	Average Wage 2012 ($)
Total	**0.9**	**0.9**	**62,712**
Leisure & Hospitality	2.2	4.1	27,704
Retail Trade	1.0	1.9	30,726
Other Services[1]	1.1	2.2	39,895
Education & Health Care[2]	1.8	1.7	46,893
Transp. & Utilities[3]	1.1	(0.2)	54,325
Government	0.3	(1.6)	56,246
Real Estate, Rental, & Leasing	0.8	(0.0)	59,519
Manufacturing[4]	(2.6)	(1.2)	61,038
Construction	2.5	(1.1)	62,396
Wholesale Trade	0.0	0.5	77,820
Professional Services	3.0	2.1	96,191
Information	(1.0)	0.9	100,393
Management of Companies	1.8	0.9	144,483
Finance & Insurance	0.8	(0.0)	200,579

Note: Percentages are average annual growth rates.

[1] Including administrative, support, and waste management services.

[2] Includes only private employment. Public education and health care employment is included in the government sector.

[3] Transportation, warehousing, and utilities.

[4] Including mining.

Sources: NYS Department of Labor; NYS Assembly Ways and Means Committee staff.

Improvement in the State labor market during the current recovery is driven mainly by employment growth in the service-providing sector. As of December 2013, 68 months since the previous employment peak, service-providing employment was 257,600 above its pre-recession peak, while goods-producing employment remained 141,400 below its prior peak (see Figure 43).[52]

[52] The service-providing sector accounted for 91.1 percent of NYS total nonfarm employment in 2012. This percentage was 89.6 percent during the 2007 recession, and 84.0 percent in 1990.

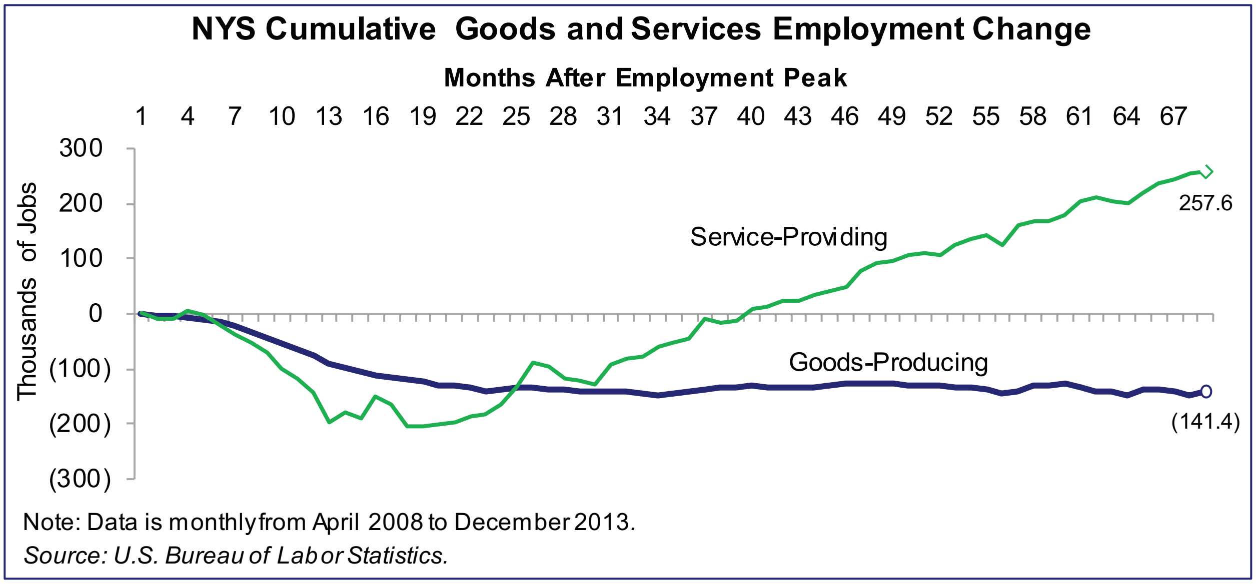


Figure 43

As the economy improves, employment in both New York State and the nation is forecast to continue to grow. However, as states that lost significant numbers of jobs regain employment, employment growth in New York is expected to lag the nation once again. Total nonfarm employment in the State is estimated to have grown 1.1 percent in 2013, compared to 1.7 percent nationwide. Nonfarm employment is forecast to grow at 1.2 percent in 2014 and 1.3 percent in 2015, while national employment is forecast to grow 1.7 percent and 1.9 percent, respectively.

During the most recent recession, New York performed better than most states, including other large states. After ranking fortieth among fifty states and the District of Columbia in employment growth in 2005, and forty-first in 2006, New York State employment growth ranked nineteenth in 2007, thirteenth in 2008, and improved to eighth in 2009, when the State's employment growth surpassed all other states with comparatively large economies.[53] This was due in part to a more stable construction sector in New York. As employment in several states that lost a significantly higher percentage of jobs than New York has grown faster in recent years, State employment growth has fallen in rank; New York State employment growth ranked thirteenth in 2011, before falling to twenty-eighth in 2012 and thirty-first in 2013.

[53] Other comparatively large state economies include Texas, California, and Florida.

The most recent recession was milder in New York State than the two previous recessions in terms of employment loss. Although nonfarm employment loss was higher during the most recent recession than during the 2001 recession, the employment recovery was much faster after the most recent recession (see Figure 44). Sixty-eight months after the employment peak, employment in the State had well surpassed its peak prior to the recession. On the contrary, employment in the State remained at 385,700 jobs or 4.7 percent below its previous peak 68 months after the 1990-91 recession, and 82,200 jobs or 0.9 percent below its previous peak at the end of the same period following the 2001-02 recession.

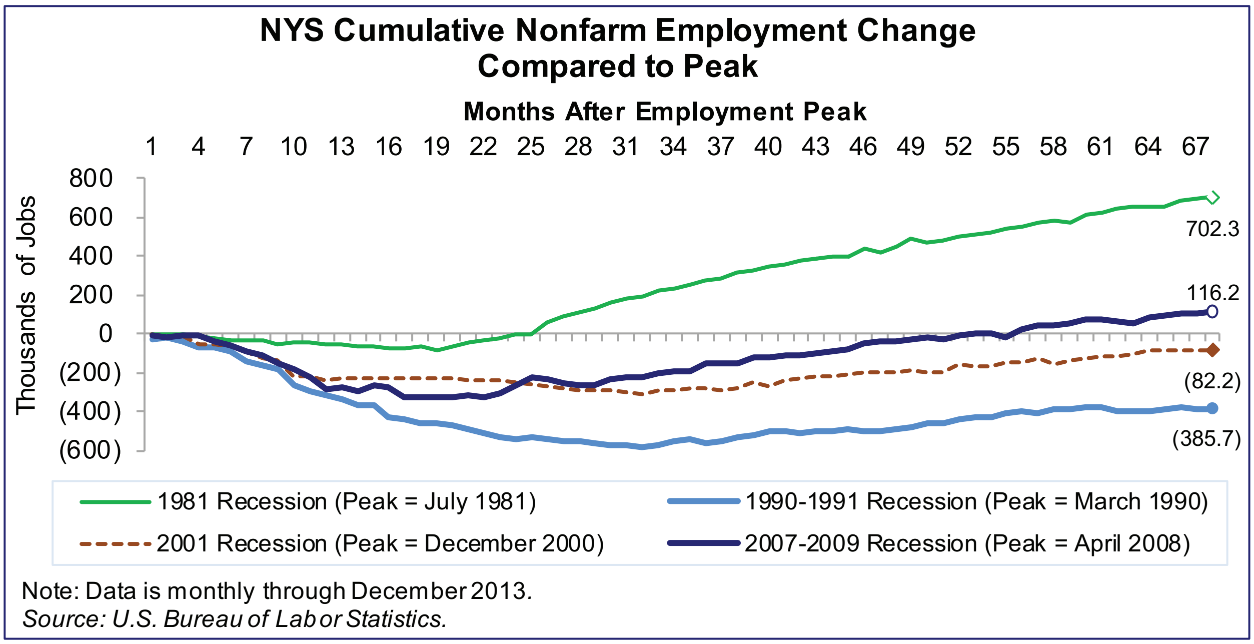


Figure 44

Sectoral Employment

Education and health care was the only sector that showed a gain in employment during the recession; the sector gained 1.7 percent in 2009 and has continued to grow. This sector's growth is expected to persist, as aging baby boomers will likely create more demand for health care services. The education and health care sector is estimated to have grown 1.4 percent in 2013, and is forecast to grow at a similar rate throughout the forecast period (see Table 10).

The sector that lost the largest percentage of jobs during the most recent recession was the manufacturing sector. From 2008 to 2010, the manufacturing sector lost approximately 76,850 jobs or 14.3 percent, which accounted for approximately 30 percent of total State nonfarm job loss. Manufacturing employment started to rebound in 2011, growing 0.2 percent due to growth in the durable goods industry. This gain was temporary as employment in the sector was flat in 2012, and is estimated to have fallen further by 0.9 percent in 2013. It is forecast that manufacturing employment will continue to decline at the rate of 0.6 percent in 2014 and 2015.

Continuing budget problems at all levels of government have put pressure on government employment. As a result, government employment declined four years in a row from 2009 to 2012, and is estimated to have fallen for the fifth year in 2013. It is expected to continue to decline in 2014 driven by a decline in federal government employment as fiscal tightening persists. Government employment is forecast to decline 0.5 percent in 2014 and another 0.1 percent in 2015.

Two sectors that have grown robustly coming out of the most recent recession are the leisure and hospitality and the professional services sectors. The leisure and hospitality sector has been a main beneficiary of the weak dollar. A weak dollar makes travel to the United States relatively cheaper, thereby attracting more international tourists to the State. Total international visitors to New York City increased by 12.8 percent from 8.6 million in 2009 to 10.9 million in 2012.[54] As a result, leisure and hospitality employment grew 3.3 percent in 2010, 4.3 percent in 2011, and 4.7 percent in 2012, the strongest growth among all sectors. Leisure and hospitality employment continued to grow by an estimated 3.2 percent in 2013. As the value of the dollar is expected to remain low while the overall economy continues to improve, the sector is forecast to grow by 3.3 percent in 2014 before growing further by 3.2 percent in 2015.

The professional services sector has also rebounded strongly during the current recovery as accounting and consulting firms have increased hiring in response to higher demand due to a global recovery and new laws and regulations. The region that benefited the most from this hiring was New York City, where several big professional services firms are based; however, some other regions posted strong job gains in this sector. From the second quarter of 2010 to the second quarter of 2013 the State added 57,100 jobs in this sector, of which 38,300 jobs were in the New York City region. As these firms continue to hire, employment in the professional services sector will likely continue to grow throughout the forecast period (see Table 10).

[54] NYC, The Official Guide, *NYC Statistics*, 2006–2014 NYC & Company, Inc., http://www.nycgo.com/articles/nyc-statistics-page.

Table 10

New York State Nonfarm Employment by Sector (Percent Change)	Actual 2011	Actual 2012	Estimated 2013	Forecast 2014	Forecast 2015
Total	**1.2**	**1.3**	**1.1**	**1.2**	**1.3**
Construction	0.4	1.9	3.7	3.9	3.5
Leisure & Hospitality	4.3	4.7	3.2	3.3	3.2
Management of Companies	0.9	1.0	2.5	1.9	2.0
Other Services[1]	2.9	2.3	2.4	2.1	2.0
Professional Services	3.7	4.1	2.2	2.7	2.7
Real Estate, Rental, & Leasing	0.3	1.0	1.5	1.3	1.4
Education & Health Care[2]	1.5	1.5	1.4	1.5	1.6
Retail Trade	1.9	2.2	1.2	1.2	1.3
Wholesale Trade	1.7	1.1	0.1	0.5	0.6
Transp. & Utilities[3]	0.9	0.3	(0.0)	0.5	0.6
Information	1.3	1.5	(0.1)	(0.3)	(0.1)
Government	(2.8)	(1.5)	(0.9)	(0.5)	(0.1)
Manufacturing[4]	0.2	0.0	(0.9)	(0.6)	(0.6)
Finance & Insurance	2.1	(0.3)	(1.1)	(0.5)	0.0

Note: Industries are ranked by 2013 employment growth; rankings are based on two decimal places.

[1] Including administrative, support, and waste management services.

[2] Includes only private employment. Public education and health care employment is included in the government sector.

[3] Transportation, warehousing, and utilities.

[4] Including mining.

Sources: NYS Department of Labor; NYS Assembly Ways and Means Committee staff.

New York State has seen significant change in its sectoral employment during the past several decades. The most notable sectors are the education and health care sector and the manufacturing sector. Education and health care employment has been steadily increasing even during recessions. As this sector has continued to grow while others contracted, its share of total nonfarm payroll employment in New York State has risen. In 1980, education and health care employment ranked fourth among all sectors in the State and accounted for less than 10 percent; this sector's share jumped to 19.0 percent and ranked first in 2012. Both upstate and downstate shared equally in this gain. In downstate, the employment share of education and health care grew from 9.6 percent in 1980 to 19.7 percent in 2012. Its rank jumped from fourth to first. Similarly, this sector's upstate employment share grew from 9.7 percent in 1980 (ranked fourth) to 18.4 percent in 2012 (ranked second behind the government sector).[55]

[55] Downstate New York includes the New York, Long Island, and Mid-Hudson regions.

The manufacturing sector has also gone through a drastic change. Unlike the education and health care sector, the manufacturing sector has been losing jobs for the past few decades. In 1980, the manufacturing sector accounted for 17.1 percent of total New York State employment, the second largest employment share in the State behind the government sector. In 2012, this sector dropped to eighth in rank and accounted for only 5.4 percent of total nonfarm employment. This was due to a structural shift in the economy and other economic factors. The manufacturing sector has become less vital to the downstate economy than to upstate, in terms of both the number of jobs and share of total employment. In 1980, manufacturing was the second largest sector in downstate, accounting for 14.0 percent of total employment. In 2012, the sector ranked eleventh and accounted for less than 4.0 percent of total employment in downstate. Likewise, manufacturing was the largest sector in upstate in 1980, accounting for 24.6 percent of total employment; this share dropped to 10.2 percent in 2012 and ranked fourth.

Regional Employment

In 2012, the largest region by employment in the State was New York City, with employment of more than 3.7 million, accounting for over 40 percent of total State nonfarm employment. The smallest employment region was the North Country, which had 145,100 nonfarm jobs. The two largest sectors in all regions were the education and health care sector and the government sector, while in most regions the smallest sectors were the management of companies sector and the real estate, rental, and leasing sector.

During the most recent recession, downstate and upstate employment in New York were both hit hard. Downstate employment had a large decline in sectors such as construction, manufacturing, and finance and insurance. Upstate experienced large employment losses in construction, manufacturing, and other services. From the second quarter of 2008 to the second quarter of 2009, downstate lost 3.3 percent of its employment or 194,600 jobs while upstate lost 3.0 percent or 80,900 jobs. One sector that lost the most jobs in both upstate and downstate was manufacturing; however, manufacturing accounted for a larger proportion of total upstate employment than that of downstate.

The employment recovery in upstate has lagged that of downstate due to slower recovery in many large sectors. From the second quarter of 2009 to the second quarter of 2013, upstate gained no jobs, while downstate gained 5.5 percent in total nonfarm employment.

Downstate growth was driven by fast growth in the leisure and hospitality, other services, retail trade, and professional services sectors (see Table 11).

Table 11

New York State Employment Change During Recession and Recovery (Percent Change)

	Recession 2008:Q2-2009:Q2			Recovery 2009:Q2-2013:Q2		
	New York State	Downstate	Upstate	New York State	Downstate	Upstate
Total Nonfarm	**(3.2)**	**(3.3)**	**(3.0)**	**3.9**	**5.5**	**0.0**
Leisure & Hospitality	(1.6)	(1.7)	(1.2)	17.5	21.7	9.6
Other Services[1]	(5.8)	(5.5)	(6.6)	9.4	11.0	4.1
Professional Services	(4.4)	(5.2)	(2.3)	8.4	10.0	2.8
Retail Trade	(4.2)	(4.6)	(3.6)	7.2	10.8	1.1
Education & Health Care[2]	1.7	1.8	1.4	7.2	8.6	3.6
Management of Companies	(0.4)	(1.7)	1.8	4.9	4.5	3.8
Information	(3.7)	(4.7)	(4.1)	2.4	4.4	(11.0)
Wholesale Trade	(6.6)	(7.1)	(5.1)	1.5	1.6	(0.5)
Real Estate, Rental, & Leasing	(4.1)	(3.7)	(5.6)	1.2	2.1	(1.3)
Construction	(10.0)	(10.8)	(7.6)	(0.3)	(1.3)	(0.1)
Transportation & Utilities[3]	(4.8)	(4.3)	(6.4)	(0.6)	(0.4)	(1.6)
Finance & Insurance	(7.3)	(8.2)	(3.6)	(1.6)	(1.3)	(2.0)
Manufacturing[4]	(11.2)	(11.0)	(11.4)	(4.6)	(6.0)	(3.5)
Government	0.2	0.1	0.3	(5.6)	(5.1)	(6.6)

Note: New York State total includes unclassified data.

[1] Includes administrative, support, and waste management Services.

[2] Includes only private employment. Public education and health care employment is included in the government sector.

[3] Transportation, warehousing, and utilities.

[4] Including mining.

Source: NYS Department of Labor.

On an annual basis, the downstate regions were hit harder than upstate regions in the most recent recession (see Table 12). However, downstate has recovered faster than upstate. From 2009 to 2012, downstate gained 3.8 percent in nonfarm jobs as a result of large employment gains in leisure and hospitality and professional services, with all regions gaining jobs. On the contrary, upstate employment remained flat during this period, with four of seven regions experiencing job loss. The Mohawk Valley and North Country regions lost the most jobs in terms of percentage from 2009 to 2012 due to a large employment decline in the government and manufacturing sectors.

Table 12

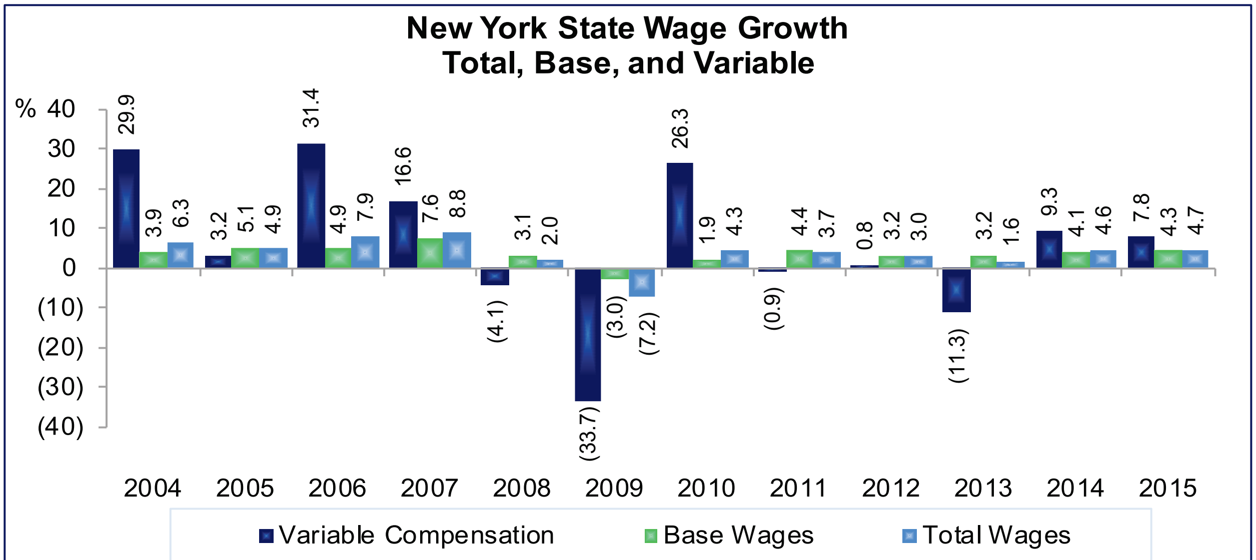
New York State Nonfarm Employment by Region 2008-2012								
	2008		2009			2012		
	Employment (Thousands)	Share of Total State Employment (%)	Employment (Thousands)	Share of Total State Employment (%)	Employment Change 2008-2009 (%)	Employment (Thousands)	Share of Total State Employment (%)	Employment Change 2009-2012 (%)
New York State	**8,573.7**	**100.0**	**8,312.0**	**100.0**	**(3.1)**	**8,531.5**	**100.0**	**2.6**
Downstate	**5,783.4**	**67.5**	**5,600.9**	**67.4**	**(3.2)**	**5,813.6**	**68.1**	**3.8**
New York City	3,672.6	42.8	3,563.6	42.9	(3.0)	3,747.9	43.9	5.2
Long Island	1,221.0	14.2	1,179.3	14.2	(3.4)	1,203.6	14.1	2.1
Mid-Hudson	889.8	10.4	858.0	10.3	(3.6)	862.1	10.1	0.5
Upstate	**2,652.7**	**30.9**	**2,577.5**	**31.0**	**(2.8)**	**2,578.1**	**30.2**	**0.0**
Finger Lakes	542.9	6.3	527.1	6.3	(2.9)	534.1	6.3	1.3
Western New York	629.1	7.3	610.9	7.4	(2.9)	615.0	7.2	0.7
Capital	507.6	5.9	495.6	6.0	(2.4)	496.6	5.8	0.2
Central New York	348.8	4.1	337.7	4.1	(3.2)	335.9	3.9	(0.5)
Southern Tier	298.1	3.5	288.0	3.5	(3.4)	285.4	3.3	(0.9)
North Country	152.0	1.8	148.2	1.8	(2.5)	145.1	1.7	(2.1)
Mohawk Valley	174.2	2.0	169.9	2.0	(2.5)	165.9	1.9	(2.3)

Note: New York State total includes unclassified data.
Source: NYS Department of Labor.

Wages

The growth of wages in New York State remains a central issue in the State economic outlook and revenue forecasts. The State has typically been helped by strong growth in variable wages (bonuses) in the financial sector; however, this usual source of income declined during the most recent recession leading to adverse effects on the State economy and revenues. Nevertheless, after dropping by $37.4 billion or 33.7 percent in 2009, total variable wages in the State have recovered from the most recent recession. Total wages in the State grew in 2010 and 2011, and surpassed the 2008 level in 2011. Growth has continued since then, as a result of employment growth and an increase in activity in some sectors that pay high wages. In 2012, New York State wages totaled $536.2 billion, and accounted for 8.3 percent of total wages paid in the United States.

Although wages grew in 2012, the growth rates were relatively weak compared to historical numbers (see Figure 45). Wage growth in 2012 would have been even slower had it not been supported by a shift of wages from the first quarter of 2013 to the fourth quarter of 2012 in anticipation of a higher tax rate.[56] In 2013, total wages are estimated to have risen by 1.6 percent, supported by base wage growth of 3.2 percent. Variable wages are estimated to have decreased by 11.3 percent, primarily due to the significant amount of bonus payments shifted into 2012 from 2013.



Note: Total wage data for 2013 is estimated; 2014 and 2015 are forecasts. Base wages and variable compensation are estimated by the NYS Assembly Ways and Means Committee staff and levels sum to total wages.

Sources: NYS Department of Labor; NYS Assembly Ways and Means Committee staff estimates.

Figure 45

Total New York State wages are forecast to grow 4.6 percent in 2014 and 4.7 percent in 2015. While these numbers represent solid growth, they are still below the growth rates achieved leading up to the most recent recession. This is primarily due to the behavior of variable wages. Variable wage growth is not forecast to reach the high levels attained in 2006 and 2007 when securities industry firms had huge profits and bestowed large bonuses on employees. Variable wage growth is forecast to be 9.3 percent in 2014 and 7.8 percent in 2015. Base wages are forecast to grow by 4.1 percent in 2014 and by 4.3 percent in 2015, reflecting

[56]Higher taxes were partly due to a 3.8 percent tax increase on unearned income related to the Affordable Care Act. With the expiration of the Bush tax cuts, higher income households saw their income tax rates increased. See *The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010*, Public Law 111-312, 111th Congress, December 17, 2010; *The Patient Protection and Affordable Care Act*, Public Law 111-148, 111th Congress, March 23, 2010; and *The American Tax Relief Act of 2012*, Public Law 112-240, 112th Congress, January 2, 2013.

an expectation of a continuing recovery in employment. As employment grows steadily, even in those industries with a relatively lower average wage, base wages will continue on an upward trend.

Average wages vary greatly across industries and certain sectors receive a share of aggregate wages paid in New York State that is highly disproportionate to their size in terms of number of jobs. Such is the case of the finance and insurance sector which accounts for the highest share of wages, 18.6 percent, with 5.8 percent of the State's total employment. In contrast, the retail trade sector comprises 10.7 percent of total employment and only 5.2 percent of the wages. The largest sector in terms of employment in New York State, health and education, receives the third largest share of wages (see Table 13).

Table 13

New York State
Industry Share of Employment and Wages and Average Wage
2012

Industry	Share of Total Nonfarm Employment (%)	Share of Total Wages (%)	Average Wage ($)
Total Nonfarm	100.0	100.0	62,712
Total Private	84.2	85.7	63,947
Finance and Insurance	5.8	18.6	200,579
Management of Companies	1.6	3.6	144,483
Information	3.0	4.8	100,393
Professional Services	7.0	10.7	96,191
Wholesale Trade	3.9	4.8	77,820
Construction	3.7	3.6	62,396
Manufacturing[1]	5.4	5.3	61,038
Real Estate, Rental, & Leasing	2.1	2.0	59,519
Government	16.1	14.4	56,246
Transportation and Utilities[2]	3.0	2.6	54,325
Education and Health Care[3]	19.1	14.2	46,893
Other Services[4]	9.0	5.7	39,895
Retail Trade	10.7	5.2	30,726
Leisure and hospitality	9.4	4.1	27,704

Note: New York State total includes unclassified data.

[1] Includes mining.

[2] Transportation, warehousing, and utilities.

[3] Includes private employment and wages. Public education and health care data is included in the government sector.

[4] Includes administrative, support, and waste services.

Source: New York State Department of Labor.

Going forward, the two sectors that account for the highest share of wages, finance and insurance and government, may be hampered as a result of current economic conditions.[57] The government sector has been constrained in recent years by cutbacks at all levels of government. Wages in the sector fell in 2011 and grew a mere 0.4 percent in 2012. Although wages in the sector are expected to grow during the forecast period, government employment has been negatively impacted as a result of cutbacks at the federal level. This has had an adverse effect on the sector's wages. The finance and insurance sector was hit hard by the financial crisis of 2008, and although wages have grown in the sector the recovery has been slow. Changes in the sector have major implications for the variable wage outlook, as discussed below.

Variable Compensation

Variable compensation is the most volatile component of New York State wages and the outlook for such wages plays an important role in the forecasting of State wages. Even though the share of variable compensation in total wages is small compared to base wages, its impact on changes in total compensation cannot be ignored. The inherently uncertain nature of bonus payments coupled with the current economic climate, where firms face great uncertainty in terms of the prospects for future demand, makes changes in variable compensation difficult to predict.

Much of the focus on New York State variable compensation is concentrated in the financial sector; particularly the securities industry which accounts for 40 percent of total variable wages paid in the State (see Figure 46). Before the most recent recession, the percentage of total State variable compensation paid in the securities industry was over 50 percent.

[57] For New York State wage growth by industry refer to Appendix E on page 87.

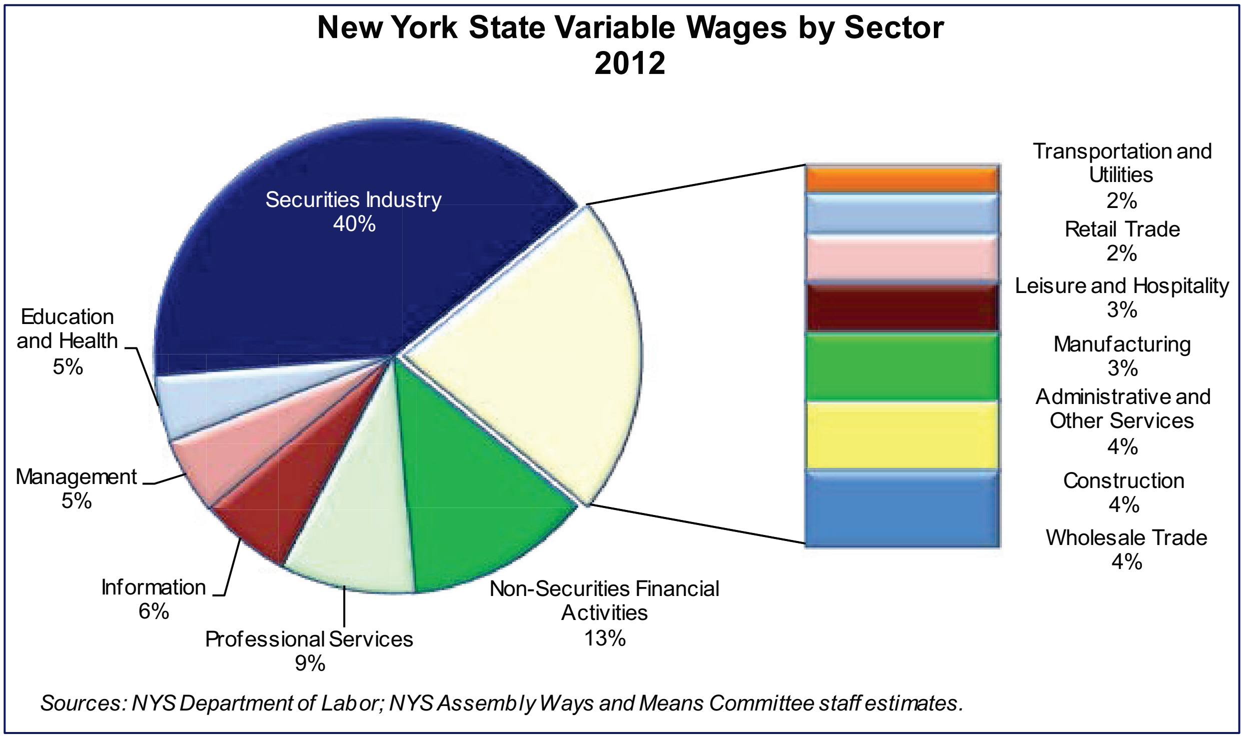


Figure 46

While inherently complex to forecast, bonus season payments have proven particularly difficult to forecast since the recent financial crisis. One of the major changes resulting from the financial crisis is an expansion of bonus payouts in the form of stock options, rather than cash. However, the exact breakout between stock and cash is not available, nor is information on how much cash may be deferred. Although timing and the amount of gains realized are not clear, some of these stock options have been exercised, helping to increase overall wages.[58] Anecdotal stories have suggested that the recent rally in bank stocks will mean that deferred stock awards have seen substantial growth in value giving an incentive to cash in the stock awards.[59] Should stock awards be cashed in at a faster rate than assumed, variable compensation numbers could be higher.

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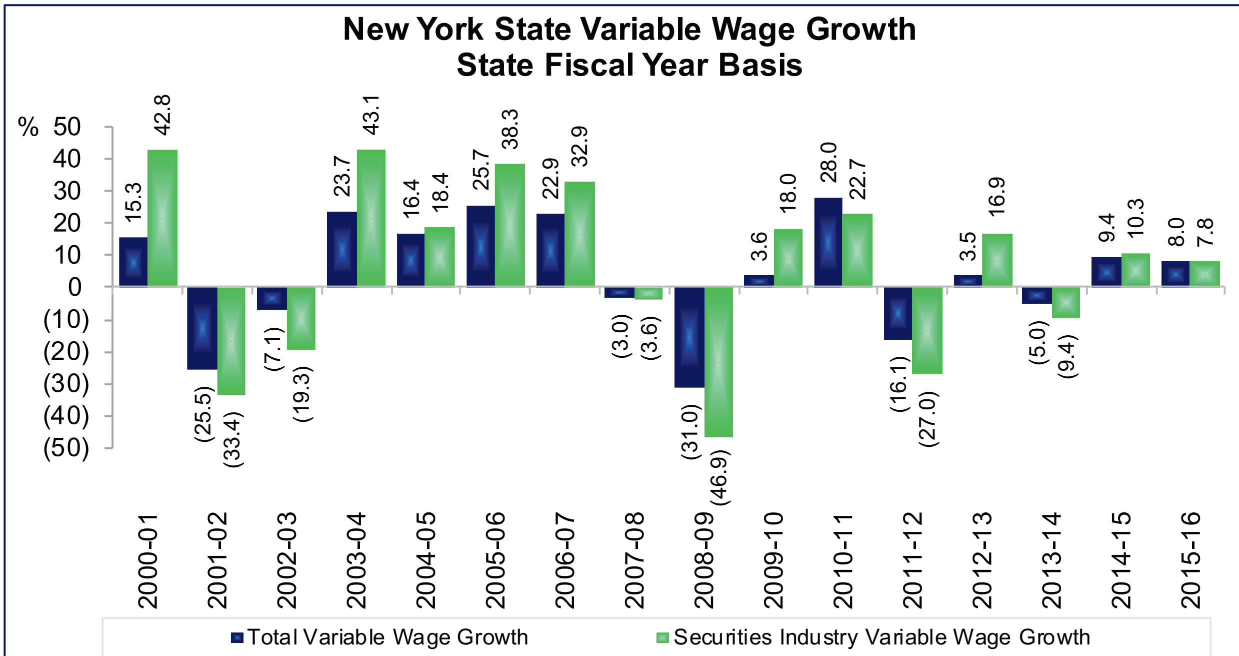
[58] Carol E. Moylan, "Employee Stock Options and the National Economic Accounts," U.S. Bureau of Economic Analysis, BEA Briefing, February 2008, http://www.bea.gov/scb/pdf/2008/02%20February/0208_stockoption.pdf; and Michael J. Moore, "Goldman Partners Exercise $77 Million of 2008 Options," *Bloomberg News*, http://www.bloomberg.com/news/2014-02-10/goldman-partners-exercise-77-million-of-2008-options.html.

[59] Andrew Ross Sorkin, "Big Bonuses, but a Shift in Who Gets the Biggest," *New York Times*, Dealbook, December 16, 2013, http://dealbook.nytimes.com/2013/12/16/big-bonuses-but-a-shift-in-who-gets-the- biggest/?_php=true&_type =blogs&_r=0.

The Assembly Ways and Means Committee staff estimates that State total variable compensation, which was $58.0 billion or 10.8 percent of total State wages in State Fiscal Year (SFY) 2012-13, will decrease by 5.0 percent to $55.1 billion in SFY 2013-14 (see Figure 47). The overall level of variable compensation has yet to recover to the 2006 or 2007 level. However, those levels were likely inflated as bonuses in the financial industry reached record levels. Variable wages during the forecast period will grow 9.4 percent in SFY 2014-15.



Note: Variable wages up to SFY 2013-14 are estimates; SFY 2014-15 and 2015-16 are forecasts.

Sources: NYS Department of Labor; NYS Assembly Ways and Means Committee staff.

Figure 47

Finance and Insurance Sector

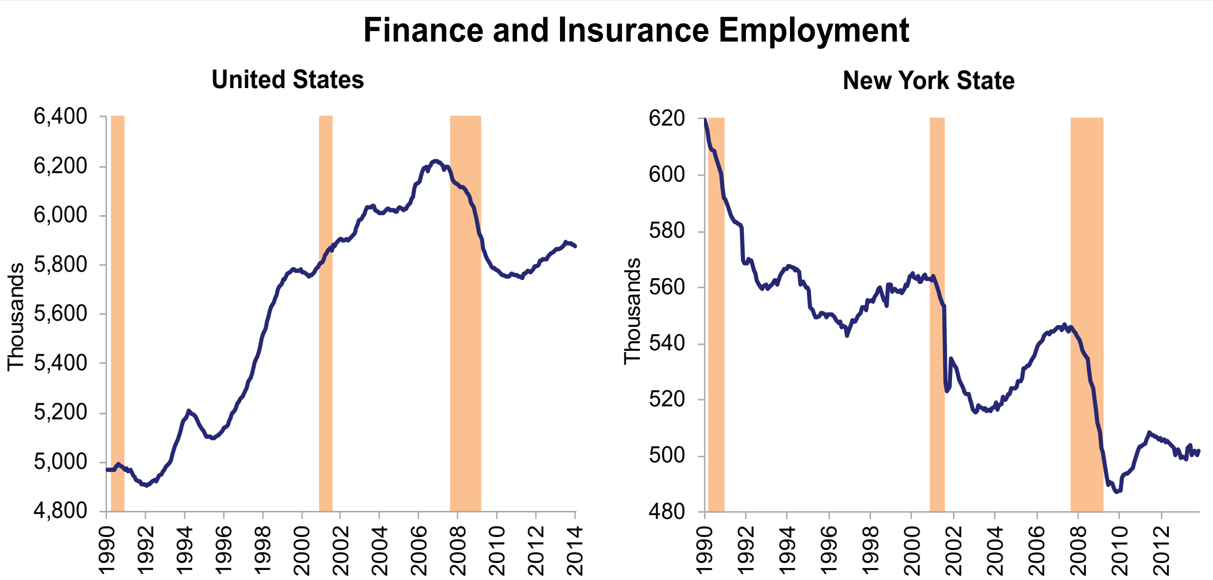
The finance and insurance sector is important to the overall health of the New York State economy, especially downstate as the sector's employment is heavily concentrated in New York City.[60] While the sector accounted for 5.8 percent of total State nonfarm payroll employment in 2012, the industry comprised 18.5 percent of total wages.[61] As a result, the

[60] According to the NYS Department of Labor, as of December 2013 the finance and insurance sector employed 502,900 people, 64 percent of whom were employed in New York City. See NYS Department of Labor, *Labor Statistics*, accessed December 2013, http://labor.ny.gov/stats/lscesmaj.shtm.

[61] Eighty-four percent of 2012 total State wages paid in the finance and insurance sector were paid in New York City. See NYS Department of Labor, Quarterly Census of Employment and Wages (QCEW), http://www.labor.ny.gov/stats/LSQCEW.shtm.

performance of the finance and insurance sector has a considerable impact on State tax revenues.

The sector continues to show evidence of the struggles faced during the most recent recession, especially in New York State. After falling, total U.S. employment in the finance and insurance sector started to increase during 2011 and has recovered about a third of the jobs lost during the recession (see Figure 48). In contrast, the sector's employment in New York State has been on a long downward trend, and while the finance and insurance sector recovered somewhat after the most recent recession, it is not expected to regain all the employment lost.



Note: Seasonally adjusted data is monthly through December 2013 for New York State and January 2014 for the United States. Shaded areas represent recessions.
Source: U.S. Bureau of Labor Statistics.

Figure 48

Within the finance and insurance sector, securities industry employment was particularly hard hit by the most recent recession and continues to be troubled by the problems in the financial system. Securities industry employment reached a record high of 871,200 jobs nationally in the second quarter of 2008, before falling 8.4 percent to its trough in the first quarter of 2010. Securities employment in the State declined in 2009 and 2010, falling 9.7 percent and 1.9 percent, respectively. The industry accounts for 185,600 jobs in the State, many of which are located in New York City.[62] Although industry employment rebounded

[62] NYS Department of Labor, Current Employment Statistics (CES) data, December 2013.

somewhat in 2011, it fell 1.6 percent in 2012 as Wall Street firms continued to stream-line their operations in response to lower revenues and profits (see Figure 49). Securities industry employment in New York State is expected to remain almost flat throughout the forecast period as firms continue to use staffing level changes to control costs in the face of a difficult economic environment.

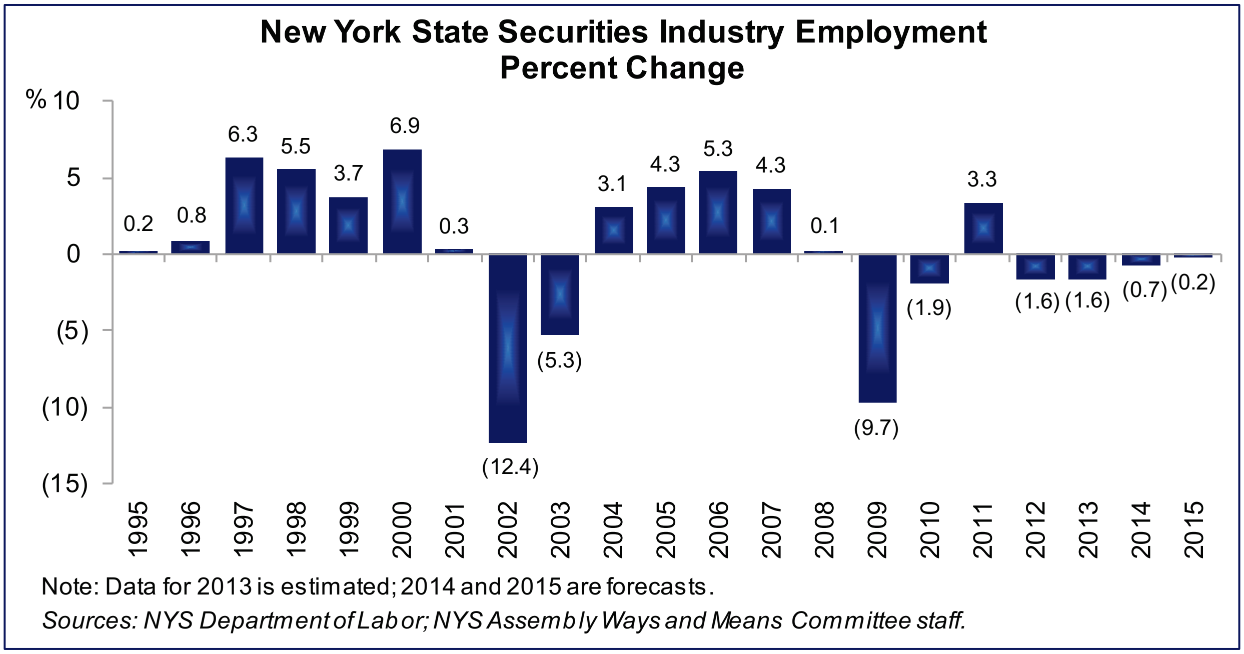


Figure 49

Following the financial crisis, a new regulatory environment (both domestic and global) will significantly affect business practices in the financial industry. Regulations stemming from such laws as the Dodd-Frank Wall Street Reform and the Consumer Protection Act and the new regulatory standards under Basel III purport to change how banks operate.[63] Specifically, as new regulations are finalized and implemented, banks will need to meet requirements such as strengthened capital ratios, stronger consumer protection guaranties, and more explicit risk taking curtailment rules. To the extent that banks restructure and change the makeup of their business activities, the impact on the outlook for profits and revenues in the sector could be significant.

[63] As of September 11, 2013, 160 of the 398 rules required as a result of the Act had been finalized. See Kevin McCoy, *USA Today,* "Dodd-Frank Act: After 3 Years, A Long To-Do List," [graphic titled: Progress of Dodd-Frank Act slow but steady, updated September 11, 2013), September 12, 2013, http://www.usatoday.com/story/money/business/2013/06/03/dodd-frank-financial-reform-progress/2377603/ (accessed: January 29, 2014).

Throughout the forecast period, bonus growth in the finance and insurance industry is expected to remain slightly positive as the economy grows; profits and revenues, upon which bonuses levels were traditionally based, will remain muted compared to pre-recession levels. The outlook for lucrative endeavors remains mixed, although some activities showed resilience in 2013. IPO activity grew in 2013, and demand continued to grow through the fourth quarter.[64] However, despite an attractive borrowing environment, the first half of 2013 was the slowest for mergers in four years.[65] The total number of deals declined through 2013, although the volume of worldwide and U.S. mergers and acquisitions was up in 2013.[66]

Real Estate Market

The New York State housing market outperformed that of the nation during the housing boom and correction. Overall home prices in both the State and the nation rose rapidly prior to the most recent recession. Home prices in the State rose 66.0 percent from the first quarter of 2001 to the first quarter of 2007, compared to 53.4 percent for the nation (see Table 14). Home price increases in New York were driven largely by downstate housing prices, which had almost doubled during this period.

Home prices continuously declined during the housing correction. From the first quarter of 2007 to the second quarter of 2011, home prices fell 20.4 percent nationally, while home prices in the State declined by much less, 6.9 percent. The two metros that had the largest home price depreciation in New York State were the New York-Jersey City-White Plains and Nassau-Suffolk areas, where prices dropped by 16.4 percent and 12.6 percent, respectively. Upstate home prices were less affected by the real estate cycle than downstate. Prices in Buffalo-Niagara Falls, Syracuse, and Rochester continued to appreciate during the housing downturn.

The New York housing market has lagged the nation during the recovery, however. From the second quarter of 2011 to the third quarter of 2013, home prices nationwide grew 13.3 percent, while home prices in New York State grew by only 2.7 percent.

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[64] "PwC's Q4 IPO Watch Finds 2013 IPO Volume Hits Highest Level in Six Years," *U.S. Press Releases*, PricewaterhouseCoopers LLP, (New York) Dec. 19, 2013, http://www.pwc.com/us/en/press-releases/2013/pwc-q4-2013-ipo-watch-press-release.jhtml.

[65] Michael J. DeLaMerced, "Merger Activity Was Down but Not Out in First Half," *New York Times*, Dealbook, July 1, 2013, http://dealbook.nytimes.com/2013/07/01/merger-activity-was-down-but-not-out-in-first-half/?_r=0.

[66] The Wall Street Journal and Dealogic, "Investment Banking Scorecard," *Wall Street Journal*, February 17, 2014, U.S. Edition, http://graphicsweb.wsj.com/documents/INVESTMENT/InvestmentBankQuarterly_1007.html.

Table 14

Home Price Change by New York State Metropolitan Area (Percent Change)			
	2001:Q1-2007:Q1	2007:Q1-2011:Q2	2011:Q2-2013:Q3
Buffalo-Cheektowaga-Niagara Falls	32.6	4.4	8.2
Rochester	22.4	0.1	5.8
Syracuse	39.1	0.5	2.6
Albany-Schenectady-Troy	82.7	(4.8)	1.6
New York-Jersey City-White Plains	90.0	(16.4)	1.4
Nassau-Suffolk	85.3	(12.6)	0.1
New York State	**66.0**	**(6.9)**	**2.7**
U.S.	**53.4**	**(20.4)**	**13.3**

Note: Data is seasonally adjusted. The FHFA Index presented herein may show different price changes from the S&P/Case-Shiller Index. This is because the two indices use different data. The FHFA Index is based on homes with conforming loans, which have a loan limit of $417,000 for single-family homes. Therefore, the FHFA index does not reflect price changes for more expensive homes.

Source: Federal Housing Finance Agency (FHFA).

Although the percentage of mortgage holders in New York State who owe more than their house is worth (negative equity) has remained among the lowest in the nation, the share has declined slower in the State than in the nation. From the fourth quarter of 2011 to the third quarter of 2013, the percentage of mortgage holders who were in negative equity in the State decreased slightly from 7.7 percent to 5.7 percent, while the share dropped from 25.2 percent to 13.0 percent nationwide.[67] In addition, foreclosure rates in the State have recently increased sharply. In 2013, foreclosure filings in New York increased by 34.0 percent from the previous year, compared to a decline of 3.0 percent for the nation.[68] As of December 2013, the foreclosure inventory in the State had dropped gradually by 0.3 percentage point from a year ago to 4.9 percent, compared to a drop of 0.8 percent to 2.1 percent nationwide. This is the third highest among all states, behind Florida and New Jersey.[69] Thus, it is evident that the State's housing market remains strained.

[67] Corelogic, Corelogic's Negative Equity Data Updates, *Corelogic*, (as of January 16, 2014).

[68] RealtyTrac Staff, "1.4 Million U.S. Properties with Foreclosure Filings in 2013, Down 26 percent to Lowest Annual Total Since 2007," *RealtyTrac*, January 13, 2014, http://www.realtytrac.com/content/foreclosure-market-report/2012-year-end-us-foreclosure-report-7963.

[69] The foreclosure inventory represents the number and share of mortgaged homes that have been placed into the process of foreclosure by the mortgage servicer. The data accounts for only first liens against a property and does not include secondary liens. The foreclosure inventory is measured only against homes that have an outstanding mortgage. See, Corelogic, Corelogic's National Foreclosure Report, *Corelogic*, December 2013.

As home prices fell faster than income, and mortgage interest rates were at record lows during the housing correction, homes have become more affordable. Nationally, the Housing Opportunity Index rose from 41.3 percent in the first quarter of 2006 to its recent peak at 77.5 percent in the first quarter of 2012. Recently, as home prices as well as mortgage rates rose, the Housing Opportunity Index began to fall and stood at 64.5 percent in the third quarter of 2013.

Regionally, housing in upstate New York has long been more affordable than that of downstate. While a few upstate metros were consistently ranked among the top fifty most affordable metros out of 223 metros nationwide, New York-White Plains-Wayne has been ranked among the least affordable large metros every quarter since the second quarter of 2008. In the third quarter of 2013, only 23 percent of homes sold in this area were affordable to families earning the area median income, compared to over 90 percent in Syracuse.[70]

Despite the improvement in housing affordability, a large disparity still exists in New York State. In 2012, downstate residents faced a much higher housing cost burden than those in upstate. The housing burden was highest in New York-Northern New Jersey-Long Island, where 40.9 percent of homeowners and 51.3 percent of renters paid more than 30 percent of their income on housing. The lowest burden for homeowners was in Elmira, where only 16.5 percent of homeowners paid more than 30 percent of their income on housing. In the State as a whole, 33.2 percent of all New York homeowners paid more than 30 percent of their income on housing in 2012, while about half of all renters paid more than 30 percent of their income on housing, compared to 27.2 percent and 48.1 percent for the nation, respectively (see Table 15).

[70] Large metros are defined as areas with population of 500,000 or more. See National Association of Home Builders, NAHB/Wells Fargo Housing Opportunity Index (HOI), November 14, 2013.

Table 15

Housing Cost Burden by New York State Metropolitan Area					
	Owner		Renter		Housing Opportunity Index 2013:Q3
	2012		2012		
	Owner-Occupied Housing Units Total	Percent with Housing Costs Over 30% of Household Income	Renter-Occupied Housing Units Total	Percent with Housing Costs Over 30% of Household Income	
Metropolitan Statistical Area					
New York-Northern New Jersey-Long Island	3,529,896	40.9	3,342,630	51.3	23.0
Poughkeepsie-Newburgh-Middletown	160,769	38.9	71,565	53.6	68.4
Kingston	48,938	34.0	21,415	53.5	69.8
Glens Falls	37,987	24.6	13,794	48.0	80.4
Rochester	280,399	23.8	139,399	51.5	81.2
Albany-Schenectady-Troy	221,169	23.6	121,536	43.0	70.2
Ithaca	21,196	23.6	17,073	41.9	NA
Buffalo-Niagara Falls	308,473	21.3	159,616	46.0	85.9
Utica-Rome	79,146	21.1	38,989	45.4	NA
Syracuse	172,983	20.8	84,473	46.5	93.3
Binghamton	69,879	20.1	31,379	47.5	78.6
Elmira	24,469	16.5	10,398	49.8	N/A
New York State	**3,883,893**	**33.2**	**3,355,029**	**50.4**	**N/A**
United States	**74,119,256**	**27.2**	**41,850,284**	**48.1**	**64.5**

Note: The Housing Opportunity Index for New York-Northern New Jersey-Long Island was the Index for New York-White Plains-Wayne, NY-NJ.
Housing costs for homeowners include mortgage payment, real estate taxes, fire hazard and flood insurance, utilities, and fuels. The housing cost for renters is gross rent.
The Housing Opportunity Index is defined as the share of homes sold in the area that would have been affordable to a family earning the median income (i.e., the total monthly payment is less than 28 percent of the monthly median household income).
Sources: U.S. Census Bureau, 2012 American Community Survey 1-Year Estimates; National Association of Home Builders.

Commercial real estate activities in the State have recovered quite well after deteriorating in 2008 and 2009. Activities increased sharply in 2013, when overall leasing activities totaled nearly 26 million square feet, a 10.5 percent increase from 2012.[71] However, as almost four million square feet of new office space has become available during the year, the overall vacancy rate in Manhattan has risen from 9.4 percent in the fourth quarter of 2012 to 11.0 percent in the fourth quarter of 2013. Despite the new supply of office space and higher

[71] Cushman & Wakefield, "Manhattan Office Report," *MarketBeat*, 4Q13 (i.e., Fourth Quarter 2013).

overall vacancy rate, direct asking rents rose from $60.4 per square foot per year in the fourth quarter of 2012 to $64.09 per square foot per year in the fourth quarter of 2013.

Looking forward, the office market will likely continue to improve gradually as employment in the key office-using industries such as professional services are expected to recover moderately. However, more than 10 million square feet of office space will become available in the next few years, which may have an impact on overall market vacancy rates as well as asking rents.

Capital Gains

Capital gains are only realized when the sale price of assets exceeds the purchase price of assets. The disparity between current year asset prices and prior year asset prices has important implications for capital gains realizations in current and future years.[72] Thus, the performance of financial markets, especially the equity and real estate markets, is vital in determining the value of these assets at the time of their purchase or sale (see Figure 50). If an investor purchased stocks in 2004 and sold them in 2007, capital gains were most likely realized

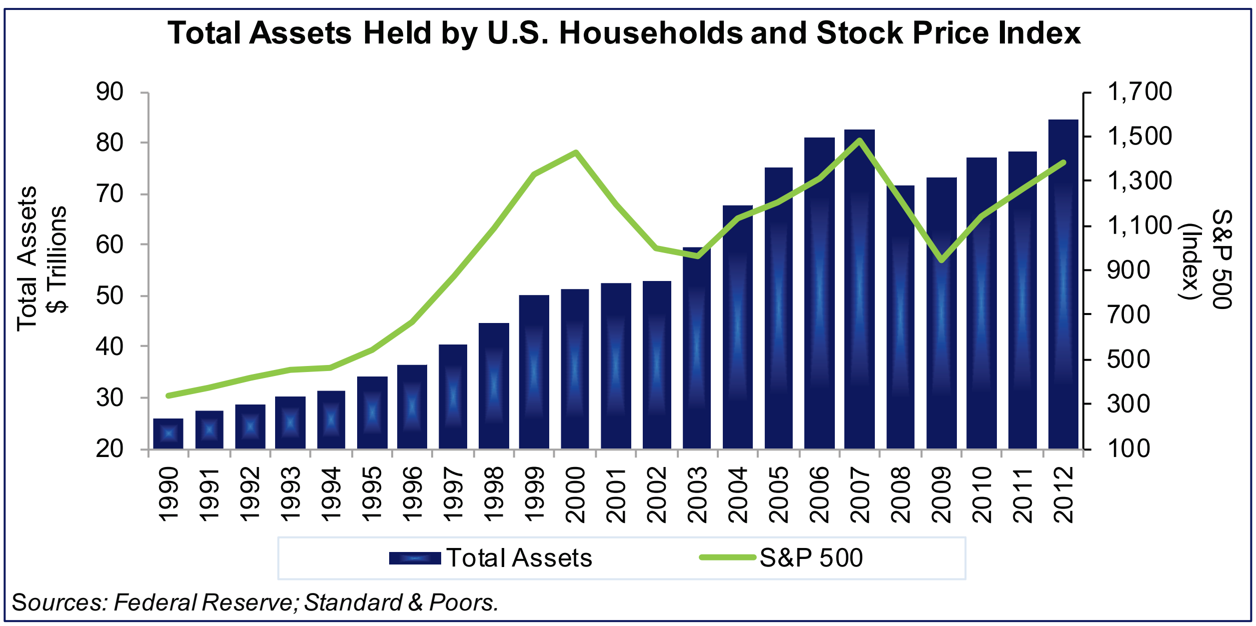
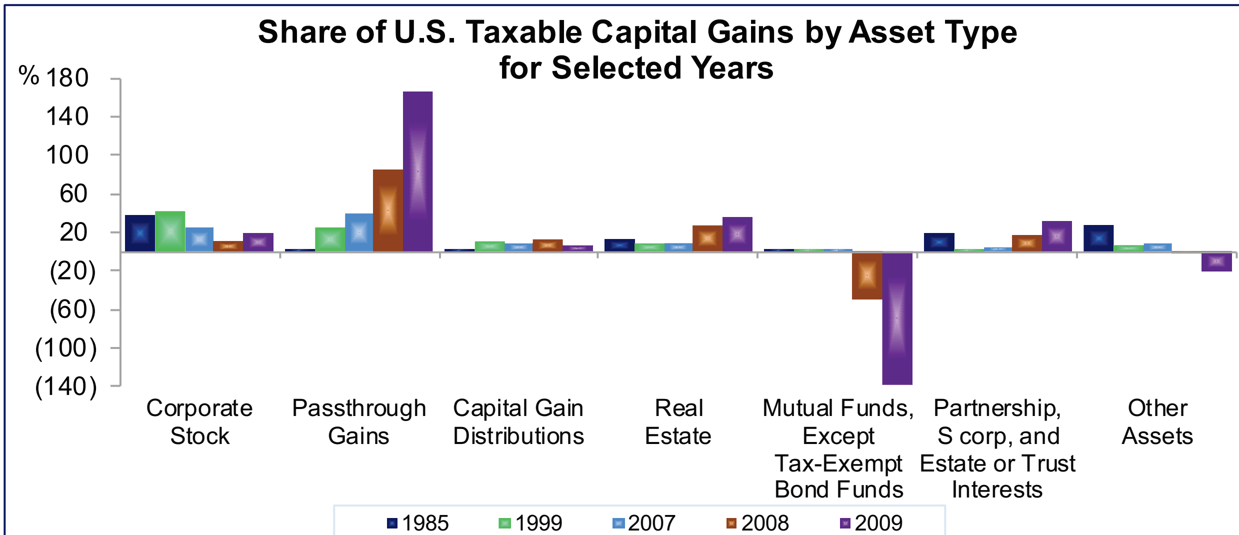


Figure 50

[72] Assets include corporate stocks, bonds, put and call options, futures contracts, real estate, mutual funds, partnerships, S corporations, and estate or trust interests, livestock, timber, depreciable business real and personal property, passthrough gains and losses, and capital gain distributions.

since, on average, equity prices were much higher in 2007 than in 2004, based on the Standard & Poor's 500 Composite Stock Price Index (S&P 500). On the other hand, if investors made purchases in 2007 and sold in 2009, the probability is higher that they suffered losses because average equity prices were lower in 2009 than in 2007. Losses on assets sold reduce taxable capital gains.

Investors have shown a remarkable capacity to modify their portfolios, even in times of severe economic woes, to realize capital gains. Consequently, the dynamics of capital gains has gotten quite fluid, overtime. Corporate stocks accounted for more than a third of taxable capital gains in 1985 and 1999, but in 2008 fell to less than 20 percent (see Figure 51).[73] Passthrough gains comprised 1.0 percent in 1985 but were 166.1 percent of total capital gains by 2009.[74] Real estate holdings constituted more than a third of taxable gains in 2009 compared to less than 10 percent in 1999 and 2007.



Note: Other Assets include all assets that are not included in the mentioned assets, e.g., government obligations, put and call options, futures contracts.

Source: Internal Revenue Service.

Figure 51

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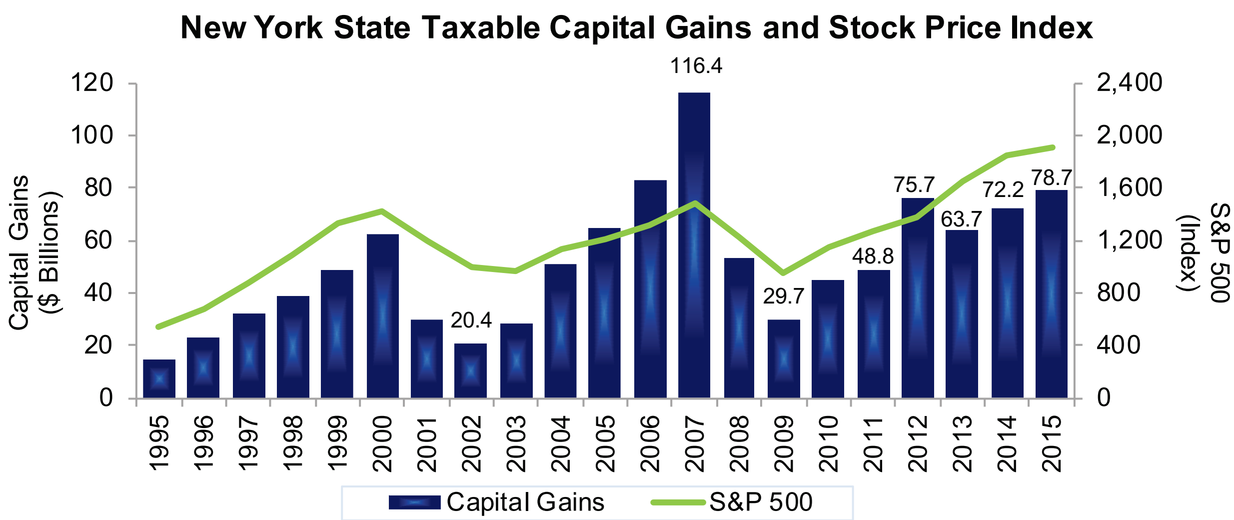
[73] Internal Revenue Service, "Short-term and Long-term Capital Gains and Losses," *SOI Tax Stats*, 1985, and 2009, Table 1a from each issue.

[74] *Passthrough gains and losses* include capital gains on assets sold by a partnership, S corporations, and estates and trusts, and distributed to be taxed at the individual partner, shareholder, and beneficiary level. *Partnerships, S corporations, and estates and trusts* include sales of partnership interests and S corporations. S corporations allocate earnings to shareholders and are taxed at the individual shareholder level. *Mutual funds, except tax-exempt bond funds* include sales of shares of mutual funds and real estate investment trusts. *Capital gain distributions* are distributions by mutual funds to shareholders of capital gains from sales of assets by mutual funds. See Janette Wilson and Pearson Liddell, "Sales of Capital Assets Reported on Individual Tax Returns, 2007," *Statistics of Income Bulletin*, winter 2010, http://www.irs.gov/pub/irs-soi/10winbulcapitalassets.pdf.

Taxable capital gains rose by 50.5 percent to $44.7 billion in 2010 from $29.7 billion in 2009. The increase in net gains was largely reflective of an increase in the financial markets since the housing market remained depressed. As weakness in the housing market persisted, realizations through home sales comprised a smaller portion of capital gains than stock transaction gains. Taxable capital gains increased 9.2 percent in 2011 to $48.8 billion as the performance of equity markets managed to improve further despite significant volatility in financial markets (see Figure 52). Furthermore, investors who had bought lower priced stocks at the bottom of the market realized gains as stock prices increased.



Note: Data for 2013 is estimated; 2014 and 2015 are forecasts.

Sources: Standard & Poors; NYS Department of Taxation and Finance; NYS Assembly Ways and Means Committee staff.

Figure 52

Capital gains grew to $75.7 billion or by 55.1 percent in 2012, partly attributable to gains shifted from 2013 to 2012 in anticipation of an increase in capital gains taxes in 2013.[75] Historical data suggests that investors are inclined to take gains when anticipating higher tax rates in the future. In addition, corporate equity prices and mutual funds share grew strongly, while home prices in the State fell.[76] In 2013, capital gains are estimated to have fallen by 15.8 percent to $63.7 billion as a consequence of the shift. With home prices expected to

[75] A tax on unearned income of 3.8 percent as part of the health care package and the expiration of capital gains tax rates that had been extended in 2010 will result in an increase in tax rates on realized capital gains from 15 percent to approximately 24 percent. See *The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010*, Public Law 111-312, 111th Congress, December 17, 2010; and *The Patient Protection and Affordable Care Act*, Public Law 111-148, 111th Congress, March 23, 2010.

[76] Home prices are as measured by the Freddie Mac House Price Index.

appreciate and equity prices anticipated to gain further, taxable capital gains are estimated to grow by 13.3 percent to $72.2 billion in 2014 and by 9.0 percent to $78.7 billion in 2015.

NYS Forecast Comparison

The NYS Assembly Ways and Means Committee staff's forecast for total nonfarm payroll employment growth in 2014 is 1.2 percent (see Table 16). This forecast is equal to the Division of Budget forecast. The staff's forecast for wage growth in 2014 is 4.6 percent. This forecast is 0.8 percentage point below the Division of Budget forecast.

Table 16

New York State Forecast Comparison
(Percent Change)

	Estimate 2013	Forecast 2014	Forecast 2015
Employment			
Ways and Means	1.1	1.2	1.3
Division of the Budget	1.2	1.2	1.2
Wages			
Ways and Means	1.6	4.6	4.7
Division of the Budget	1.6	5.4	4.6

Sources: NYS Assembly Ways and Means Committee staff; NYS Division of Budget, FY 2014-15 Executive Budget, January 2014.

The NYS Assembly Ways and Means Committee staff's forecast for total nonfarm payroll employment growth in 2015 is 1.3 percent and is 0.1 percentage point above the Division of the Budget forecast. The staff's forecast for wage growth in 2015 is 4.7 percent. The staff's forecast is 0.1 percentage point above the Division of the Budget's forecast.

Risks to the Forecast

RISKS TO THE FORECAST

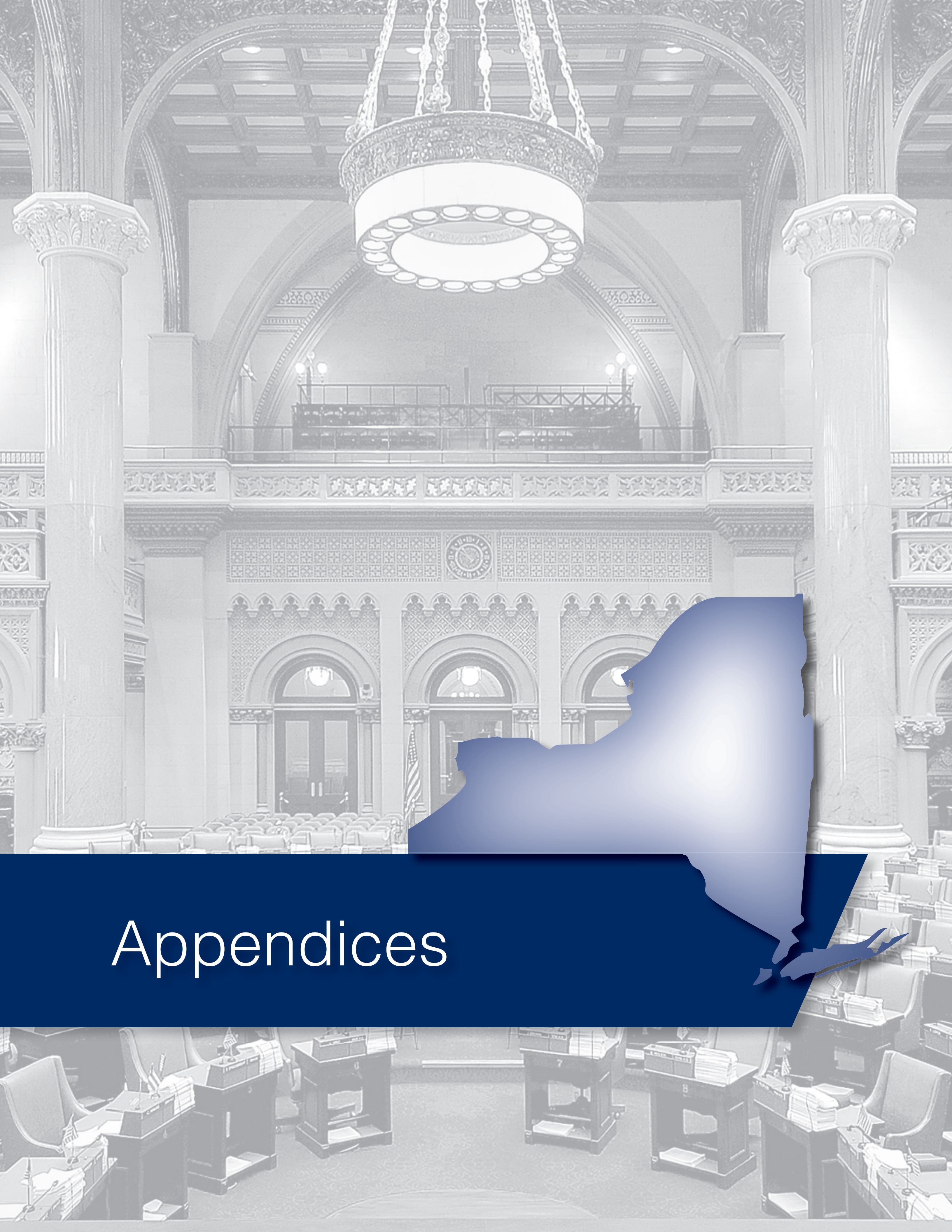
In general, the pace of the recovery has been slower than expected, and the risks to the economic outlook remain on the downside. Unforeseeable risks such as abnormal weather or adverse geopolitical developments persist in the current economic environment. In addition to unanticipated risks, problems that were central to the most recent recession continue—although with less severity. These issues include weaknesses in the housing market, uncertainty in the financial markets, and sluggishness in the labor market. If these areas were to worsen again, the impact on the outlook would be significant.

Actions by the government also add uncertainty to the forecast. Issues surrounding continued federal cutbacks present a downside risk to the economy. In addition, political debate over issues such as the budget and the debt ceiling introduces uncertainty into the economic outlook.

Federal Reserve actions in response to Quantitative Easing are also adding uncertainty to the outlook. In particular, the market reaction to Fed tapering plans adds some additional risk. Also, there is some element of uncertainty introduced by the changing of the Fed Chairman.

The health of the global economy is also a concern. Although the European debt crisis appears to have eased, issues still remain. Also, the recent currency depreciations and weakening in economic growth outlooks in several emerging economies pose downside risks to the economic outlook for both the U.S. and world economies. If the global economy were not to continue to recover as assumed, the ability of the United States economy to grow would be impacted. In addition to global economic growth, other global issues add uncertainty to the outlook, including the events in Afghanistan, unrest in the Middle East, volatility in oil prices, and other geo-political issues.

The current economic climate presents particular challenges and risks to the New York State forecast. Wall Street and the financial markets play a central role in the State economy, and drastic cuts to or changes in the composition of Wall Street compensation (including bonuses) and the resulting reductions in Wall Street tax revenues have critical implications for the economic health of the State. However, faster growth than expected for Wall Street activities offers some upside potential for the forecast.



Appendices

APPENDIX A: U.S. ECONOMIC OUTLOOK LEVELS

U.S. Economic Outlook (Levels)	Actual 2012	Estimate 2013	Forecast 2014	Forecast 2015
Real GDP*	15,470.7	15,762.1	16,180.1	16,677.1
Real Consumption*	10,517.6	10,728.2	11,018.6	11,347.5
Real Investment*	2,436.0	2,562.9	2,707.0	2,913.7
Real Exports*	1,957.5	2,012.4	2,117.5	2,224.5
Real Imports*	2,388.2	2,421.5	2,513.5	2,656.0
Real Government*	2,963.1	2,897.6	2,868.1	2,864.9
*Federal**	1,220.3	1,157.5	1,121.7	1,104.5
*State and Local**	1,742.8	1,739.7	1,746.0	1,760.0
Personal Income**	13,743.8	14,133.5	14,734.4	15,459.0
*Wages & Salaries***	6,926.8	7,137.8	7,425.7	7,791.9
Corporate Profits**	2,009.5	2,096.2	2,219.1	2,343.1
Productivity (1992=100)	105.3	105.9	108.0	110.3
Employment***	134.1	136.4	138.7	141.3
CPI-Urban (1982-84=100)	229.6	233.0	236.7	241.1
S&P 500 Stock Price (1941-43=10)	1,379.6	1,642.5	1,841.3	1,907.0
Treasury Bill Rate (3-month)****	0.1	0.1	0.1	0.3
Treasury Bond Rate (10-year)****	1.8	2.4	3.0	3.4

* In billions of chained 2005 dollars.
** In billions of dollars.
*** In millions.
**** Annual average rate.

Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Federal Reserve; Standard and Poor's; NYS Assembly Ways and Means Committee staff.

APPENDIX B: U.S. ECONOMIC OUTLOOK GROWTH

U.S. Economic Outlook (Percent Change)	Actual 2012	Estimate 2013	Forecast 2014	Forecast 2015
Real GDP	2.8	1.9	2.7	3.1
Real Consumption	2.2	2.0	2.7	3.0
Real Investment	9.5	5.2	5.6	7.6
Real Exports	3.5	2.8	5.2	5.1
Real Imports	2.2	1.4	3.8	5.7
Real Government	(1.0)	(2.2)	(1.0)	(0.1)
Federal	(1.4)	(5.1)	(3.1)	(1.5)
State and Local	(0.7)	(0.2)	0.4	0.8
Personal Income	4.2	2.8	4.3	4.9
Wages & Salaries	4.3	3.0	4.0	4.9
Corporate Profits	7.0	4.3	5.9	5.6
Productivity	1.5	0.6	2.0	2.1
Employment	1.7	1.7	1.7	1.9
CPI-Urban	2.1	1.5	1.6	1.6
S&P 500 Stock Price	8.7	19.1	12.1	3.6
Treasury Bill Rate (3-month)*	0.1	0.1	0.1	0.3
Treasury Note Rate (10-year)*	1.8	2.4	3.0	3.4

* Annual average rate.
Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Federal Reserve; Standard & Poor's; NYS Assembly Ways and Means Committee staff.

APPENDIX C: U.S. ECONOMIC OUTLOOK GROWTH (SFY BASIS)

U.S. Economic Outlook
State Fiscal Year
(Percent Change)

	Actual 2012-13	Estimate 2013-14	Forecast 2014-15	Forecast 2015-16
Real GDP	2.3	2.2	2.7	3.2
Real Consumption	2.1	2.1	2.8	3.0
Real Investment	6.4	6.4	6.0	7.4
Real Exports	2.6	4.2	4.7	5.4
Real Imports	1.5	2.1	4.5	5.5
Real Government	(1.0)	(2.1)	(0.7)	(0.0)
Federal	(1.9)	(5.2)	(2.5)	(1.5)
State and Local	(0.4)	0.1	0.4	0.9
Personal Income	3.9	3.1	4.6	4.8
Wages & Salaries	4.0	3.3	4.3	5.1
Corporate Profits	4.4	6.0	4.5	6.3
Productivity	1.1	1.2	1.8	2.2
Employment	1.6	1.7	1.7	1.9
CPI-Urban (1982-84=100)	1.8	1.4	1.7	1.9
S&P 500 Stock Price (1941-43=10)	11.0	20.9	8.0	3.6
Treasury Bill Rate (3-month)*	0.1	0.0	0.1	0.6
Treasury Note Rate (10-year)*	1.8	2.6	3.1	3.5

* Fiscal year average rate.
Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Federal Reserve; Standard & Poor's; NYS Assembly Ways and Means Committee staff.

APPENDIX D: NYS EMPLOYMENT AND WAGES IN NAICS SECTORS

NYS Employment and Wages in NAICS Sectors						
	Employment (Thousands)			Wages ($ in Billions)		
	Estimate 2013	Forecast 2014	Forecast 2015	Estimate 2013	Forecast 2014	Forecast 2015
Total	**8,627.1**	**8,733.7**	**8,848.8**	**544.7**	**569.9**	**596.5**
Education & Health	1,651.6	1,676.9	1,704.0	78.9	82.8	87.3
Government	1,361.0	1,354.6	1,352.9	78.1	79.5	80.9
Retail Trade	920.3	931.8	943.6	29.2	30.8	32.4
Other Services	789.4	806.2	822.5	31.6	33.5	35.5
Financial Activities	671.9	671.7	674.4	108.0	112.9	118.3
Leisure & Hospitality	825.4	852.9	880.2	23.0	24.8	26.1
Professional Services	609.2	625.4	642.1	59.3	62.9	66.7
Manufacturing	457.6	454.9	452.1	28.2	28.9	29.7
Construction	324.3	336.9	348.7	20.7	22.0	23.5
Wholesale Trade	334.1	335.7	337.9	26.1	27.2	28.4
Transport & Utilities	256.6	257.8	259.4	14.1	14.9	15.5
Information	258.1	257.4	257.0	26.7	27.7	28.9
Management of Companies	137.5	140.1	142.8	19.5	20.7	21.9

Note: Some NAICS sectors are grouped with others. For sector definitions, see Appendix G.

Sources: NYS Department of Labor, QCEW; NYS Assembly Ways and Means Committee staff.

APPENDIX E: NYS EMPLOYMENT AND WAGES GROWTH IN NAICS SECTORS

NYS Employment and Wage Growth in NAICS Sectors
(Percent Change)

	Employment			Wages		
	Estimate 2013	Forecast 2014	Forecast 2015	Estimate 2013	Forecast 2014	Forecast 2015
Total	**1.1**	**1.2**	**1.3**	**1.6**	**4.6**	**4.7**
Information	(0.1)	(0.3)	(0.1)	3.0	3.5	4.4
Government	(0.9)	(0.5)	(0.1)	1.0	1.9	1.7
Manufacturing	(0.9)	(0.6)	(0.6)	0.2	2.4	2.8
Financial Activities	(0.4)	(0.0)	0.4	(1.9)	4.5	4.8
Wholesale Trade	0.1	0.5	0.6	0.3	4.2	4.6
Transport & Utilities	(0.0)	0.5	0.6	1.1	5.4	4.4
Retail Trade	1.2	1.2	1.3	4.4	5.7	5.1
Education & Health	1.4	1.5	1.6	3.3	4.9	5.5
Other Services	2.4	2.1	2.0	2.6	6.0	5.8
Management of Companies	2.5	1.9	2.0	0.8	5.9	5.9
Leisure & Hospitality	3.2	3.3	3.2	3.6	7.8	5.3
Professional Services	2.2	2.7	2.7	3.4	6.1	6.0
Construction	3.7	3.9	3.5	5.7	6.5	6.7

Note: Some NAICS sectors are grouped with others. For sector definitions, see Appendix G.

Sources: NYS Department of Labor, QCEW; NYS Assembly Ways and Means Committee staff.

APPENDIX F: NYS ECONOMIC OUTLOOK (SFY BASIS)

New York State Economic Outlook State Fiscal Year					
		Actual 2012-13	**Estimate 2013-14**	**Forecast 2014-15**	**Forecast 2015-16**
Employment	***Percent Change***	1.2	1.2	1.3	1.3
	Level	8,551.8	8,652.6	8,762.2	8,877.6
Personal Income	***Percent Change***	2.9	2.7	5.0	5.1
	Level	1,029.9	1,057.7	1,110.7	1,167.5
Total Wages	***Percent Change***	3.0	2.6	4.6	4.8
	Level	537.9	551.8	577.0	604.6
Base Wages	***Percent Change***	2.9	3.5	4.0	4.4
	Level	479.9	496.7	516.7	539.5
Variable Compensation	***Percent Change***	3.5	(5.0)	9.4	8.0
	Level	58.0	55.1	60.3	65.1
CPI (1982-84=100)	***Percent Change***	1.8	1.5	1.8	2.0
	Level	253.9	257.8	262.6	267.9

Note: Employment level is in thousands; wage and personal income levels are in billions of dollars.
Sources: U.S. Bureau of Economic Analysis; NYS Department of Labor, QCEW; U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

APPENDIX G: THE NORTH AMERICAN INDUSTRY CLASSIFICATION SYSTEM (NAICS)

The North American Industry Classification System (NAICS)	
Code	**NAICS Title**
11	**Agriculture, Forestry, Fishing and Hunting**
111	Crop Production
112	Animal Production
113	Forestry and Logging
114	Fishing, Hunting and Trapping
115	Support Activities for Agriculture and Forestry
21	**Mining**
211	Oil and Gas Extraction
212	Mining (except Oil and Gas)
213	Support Activities for Mining
22	**Utilities**
221	Utilities
23	**Construction**
236	Construction of Buildings
237	Heavy and Civil Engineering Construction
238	Specialty Trade Contractors
31-33	**Manufacturing**
311	Food Manufacturing
312	Beverage and Tobacco Product Manufacturing
313	Textile Mills
314	Textile Product Mills
315	Apparel Manufacturing
316	Leather and Allied Product Manufacturing
321	Wood Product Manufacturing
322	Paper Manufacturing
323	Printing and Related Support Activities
324	Petroleum and Coal Products Manufacturing
325	Chemical Manufacturing
326	Plastics and Rubber Products Manufacturing
327	Nonmetallic Mineral Product Manufacturing
331	Primary Metal Manufacturing
332	Fabricated Metal Product Manufacturing
333	Machinery Manufacturing
334	Computer and Electronic Product Manufacturing
335	Electrical Equipment, Appliance, and Component Manufacturing
336	Transportation Equipment Manufacturing
337	Furniture and Related Product Manufacturing
339	Miscellaneous Manufacturing
42	**Wholesale Trade**
423	Merchant Wholesalers, Durable Goods
424	Merchant Wholesalers, Nondurable Goods
425	Wholesale Electronic Markets and Agents and Brokers

*** continued on next page ***

The North American Industry Classification System (NAICS) -- *(continued)*

Code	NAICS Title
44-45	**Retail Trade**
441	Motor Vehicle and Parts Dealers
442	Furniture and Home Furnishings Stores
443	Electronics and Appliance Stores
444	Building Material and Garden Equipment and Supplies Dealers
445	Food and Beverage Stores
446	Health and Personal Care Stores
447	Gasoline Stations
448	Clothing and Clothing Accessories Stores
451	Sporting Goods, Hobby, Book, and Music Stores
452	General Merchandise Stores
453	Miscellaneous Store Retailers
454	Nonstore Retailers
48-49	**Transportation and Warehousing**
481	Air Transportation
482	Rail Transportation
483	Water Transportation
484	Truck Transportation
485	Transit and Ground Passenger Transportation
486	Pipeline Transportation
487	Scenic and Sightseeing Transportation
488	Support Activities for Transportation
491	Postal Service
492	Couriers and Messengers
493	Warehousing and Storage
51	**Information**
511	Publishing Industries (except Internet)
512	Motion Picture and Sound Recording Industries
515	Broadcasting (except Internet)
516	Internet Publishing and Broadcasting
517	Telecommunications
518	Internet Service Providers, Web Search Portals, and Data Processing Services
519	Other Information Services
52	**Finance and Insurance**
521	Monetary Authorities - Central Bank
522	Credit Intermediation and Related Activities
523	Securities, Commodity Contracts, and Other Financial Investments and Related Activities
524	Insurance Carriers and Related Activities
525	Funds, Trusts, and Other Financial Vehicles
53	**Real Estate and Rental and Leasing**
531	Real Estate
532	Rental and Leasing Services
533	Lessors of Nonfinancial Intangible Assets (except Copyrighted Works)

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The North American Industry Classification System (NAICS) -- *(continued)*	
Code	**NAICS Title**
54	**Professional, Scientific, and Technical Services**
541	Professional, Scientific, and Technical Services
55	**Management of Companies and Enterprises**
551	Management of Companies and Enterprises
56	**Administrative and Support and Waste Management and Remediation Services**
561	Administrative and Support Services
562	Waste Management and Remediation Services
61	**Educational Services**
611	Educational Services
62	**Health Care and Social Assistance**
621	Ambulatory Health Care Services
622	Hospitals
623	Nursing and Residential Care Facilities
624	Social Assistance
71	**Arts, Entertainment, and Recreation**
711	Performing Arts, Spectator Sports, and Related Industries
712	Museums, Historical Sites, and Similar Institutions
713	Amusement, Gambling, and Recreation Industries
72	**Accommodation and Food Services**
721	Accommodation
722	Food Services and Drinking Places
81	**Other Services - except Public Administration**
811	Repair and Maintenance
812	Personal and Laundry Services
813	Religious, Grantmaking, Civic, Professional, and Similar Organizations
814	Private Households
92	**Public Administration**
921	Executive, Legislative, and Other General Government Support
922	Justice, Public Order, and Safety Activities
923	Administration of Human Resource Programs
924	Administration of Environmental Quality Programs
925	Administration of Housing Programs, Urban Planning, and Community Development
926	Administration of Economic Programs
927	Space Research and Technology
928	National Security and International Affairs

Source: Executive Office of the President, Office of Management and Budget, North American Industry Classification System, United States, 2002.