

New York State

Economic Report

February 2008

**Sheldon Silver
Speaker**



**Herman D. Farrell, Jr.
Chairman**

**New York State Assembly
Ways and Means Committee Staff**

February 25, 2008

Dear Colleagues:

I am pleased to provide you with the New York State Assembly Ways and Means Committee's Economic Report for 2008. This report continues our commitment to providing clear and accurate information to the public by offering complete and detailed assessments of the national and State economies.

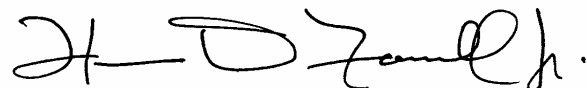
The Ways and Means Committee staff's assessments and projections presented in this report are reviewed by an independent panel of economists, including professionals from major financial corporations and universities, as well as respected private forecasters.

Assembly Speaker Sheldon Silver and I would like to express our appreciation to the members of this Board of Economic Advisors. Their dedication 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 of views express 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 a timely budget that is fair and equitable for all New Yorkers, I look forward to working with each of you.

Sincerely,

A handwritten signature in black ink, appearing to read "H. D. Farrell, Jr.", written in a cursive style.

Herman D. Farrell, Jr.
Chairman

NEW YORK STATE
ECONOMIC REPORT

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Assembly Ways and Means Committee

Prepared by the
Assembly Ways and Means Committee Staff

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EXECUTIVE SUMMARY

United States

- The NYS Assembly Ways and Means Committee staff **forecast for overall national economic growth** in 2008 is 1.5 percent. It is somewhat lower than forecasts from some major forecasting houses including the Blue Chip Consensus. The forecast for 2009 is 2.5 percent, the same as the Division of the Budget, but below several other major forecasters.

U.S. Real GDP Forecast Comparison (Percent Change)				
	Actual 2006	Estimate 2007	Forecast 2008	Forecast 2009
Ways and Means	2.9	2.2	1.5	2.5
Blue Chip Consensus	2.9	2.2	1.7	2.6
Division of the Budget	2.9	2.2	1.9	2.5
Moody's Economy.com	2.9	2.2	1.5	3.4
Macroeconomic Advisers	2.9	2.2	2.5	3.1
Global Insight	2.9	2.2	1.4	2.2

Sources: NYS Assembly Ways and Means Committee staff; Blue Chip, February 2008; New York State Division of the Budget, 2008-09 Executive Budget Supplemented for 21-Day Amendments, February 12, 2008; Moody's Economy.com, February 2008; Global Insight, February 2008; Macroeconomic Advisers, January 2008.

- The national economy, as measured by real (inflation-adjusted) **Gross Domestic Product** (GDP) growth, slowed to an estimated 2.2 percent in 2007, after growing 2.9 percent in 2006. The slowdown in 2007 was driven primarily by continued falloff in residential construction activity. U.S. real GDP is forecast to decline 0.6 percent in the first quarter of 2008 and another 0.1 percent in the second quarter. The national economy is expected to rebound to 3 to 4 percent growth during the second half of 2008.
- The relatively mild and short-lived **recession** scenario forecast in this report is based on the assumption that businesses and consumers will gradually regain their confidence in the fundamental health of the economy and the Fed's continued commitment to maintaining stable economic growth. Another crucial assumption is that global economic growth will remain robust, resulting in the U.S. trade deficit being less of a drag on economic growth.

- Given the relatively large household debt burden accumulated in recent years, the stimulus effect from the recent **federal economic stimulus package** may be limited. It is assumed that households will spend 30 to 40 percent of their tax rebate money, which will have some positive impact on consumption in the second half of 2008.
- The **housing market** that gave both the State and national economies a big boost over the past several years started to adjust in the second half of 2006, and has become the biggest drag on the economy. Housing starts fell 27.9 percent in January 2008 compared to the same period in 2007 and are likely to decline further in 2008. Home prices fell 4.5 percent in the third quarter of 2007 compared to the third quarter of 2006, the biggest drop since the first quarter of 1987.
- Since the **subprime mortgage crisis** surfaced in the summer of 2007, risk in general has been repriced, pushing the risk premium higher and making credit conditions tighter even outside residential mortgage markets.
- **Personal consumption spending**, in constant dollar (inflation-adjusted) terms, increased an estimated 2.9 percent in 2007. Growth is expected to slow to 1.5 percent in 2008, caused by restrained growth in real disposable personal income. In addition, lower cash-out refinancing and more restrictive credit requirements have put more strain on consumer spending. Personal consumption spending growth is expected to rebound to 2.1 percent in 2009, as overall economic growth is expected to return to a near-trend rate of 2.5 percent.
- **Personal income** grew an estimated 6.2 percent in 2007, after a 6.6 percent year-over-year increase in 2006. It will likely decelerate to 3.8 percent in 2008 and 4.9 percent in 2009, as employment gain and wage growth are expected to slow.
- **Private investment spending**, in constant dollar terms, is expected to decrease 3.6 percent in 2008 and grow 3.2 percent in 2009, after falling an estimated 4.7 percent in 2007. While residential construction activity has been declining for several quarters and is expected to decline further during 2008, other components of private investment spending will likely continue to gain in 2008.
- **Federal government spending**, in constant dollar terms, grew 2.2 percent in 2006. Outlays for defense and disaster relief were the main components of growth in federal spending in 2006. Growth in spending slowed to an estimated 1.7 percent in 2007 due

to slow growth in nondefense spending. In 2008, federal spending will increase 3.4 percent as outlays for the maintenance and procurement of military equipment and compensation to civilian and military personnel in Iraq and Afghanistan rises. In 2009, federal spending growth is expected to slow to 2.2 percent, as defense spending declines.

- **State and local government spending**, in constant dollar terms, grew 1.6 percent in 2006 and is estimated to have grown 2.3 percent in 2007. Outlays on investment structures, equipment, and software accounted for the growth in state and local spending for 2007. Other key pressures on state spending include outlays for education, infrastructure, and state employee benefits and pension systems. Growth is expected to slow to 1.9 percent in 2008 and 1.5 percent in 2009, as some states restrain spending to adjust to lower revenue expectations.
- **Net exports**, in constant dollar terms, defined as exports minus imports, have declined (i.e., becoming more negative) every year from 1995 through 2006, adversely affecting the exchange rate, external debt, and GDP. Net exports started to improve (i.e., becoming less negative) in 2007 and the improvement is expected to continue throughout 2009 as a result of robust global economic growth and the declining U.S. dollar value.
- On November 7, 2007, the **U.S. dollar** dropped to its lowest level since 1990 against a basket of major currencies due to the problems in the credit and housing markets, as well as the concern that lower U.S. interest rates would erode the value of dollar-denominated assets. The dollar is expected to decline further throughout the forecast period.
- After growing an estimated 1.1 percent in 2007, **employment growth** in the nation is expected to weaken to 0.3 percent in 2008 and 0.9 percent in 2009. The turmoil in the housing market will play a role in the softening of employment growth as it continues to affect the construction sector. In addition, a slowdown in output growth will contribute to slower growth in employment in other sectors of the economy as it filters through to the labor market.
- Increases in **consumer prices** in 2007 were driven by energy prices. While overall economic growth is expected to weaken, putting downward pressure on inflation, energy prices are expected to remain elevated. As a result, overall consumer price

inflation is forecast to remain at 2.9 percent in 2008, the same as in 2007. CPI inflation is expected to slow to 2.3 percent in 2009.

- **Energy prices**, oil prices in particular, continue to represent a critical risk to the overall health of the economy. Increases in energy prices (which have been quite large in recent years) have a direct impact on both consumers and businesses by raising the prices of final and intermediate goods. The volatility in energy prices is aided by the uncertainty of future conditions in energy markets. Factors that contribute to this uncertainty are weather-related phenomena such as hurricanes, geopolitical instability, and speculation. Recent oil prices are just shy of the inflation-adjusted records set in 1980.
- The **federal funds rate** averaged 5.0 percent in 2007, and is expected to average 2.4 percent in 2008 and 3.0 percent in 2009. The **ten-year Treasury note yield** averaged 4.6 percent in 2007, and is forecast to average 3.6 percent in 2008, and 4.2 percent in 2009.
- Using annual average values, the **S&P 500 stock price index** increased 12.8 percent in 2007, after growing 8.6 percent in 2006. Due to the turmoil in the housing market, tightening credit, and slower corporate profit growth, the S&P 500 is expected to decline by 5.2 percent in 2008 and then grow by 6.2 percent in 2009.
- Many **risks to the national economic forecast** exist. The major risks include the housing market, credit and liquidity issues, and energy prices.

New York State

- The NYS Assembly Ways and Means Committee staff's New York State **employment growth forecast** for 2008 is 0.3 percent. This is close to other forecasters. New York State employment is forecast to grow 0.7 percent in 2009.
- In 2007, **New York State employment** grew an estimated 1.2 percent, slightly higher than in 2006. The rate of employment growth in the State is expected to fall sharply to a mere 0.3 percent in 2008. Manufacturing job losses are forecast to continue in 2008 and 2009. The slow rate of growth in the financial activities sector, as well as the construction, professional services, and leisure and hospitality sectors will also affect employment growth in 2008. Employment in New York State is forecast to grow 0.7 percent in 2009.

New York State Forecast Comparison				
(Percent Change)				
	Actual	Estimate	Forecast	Forecast
	2006	2007	2008	2009
Employment				
Ways and Means	1.0	1.2	0.3	0.7
Division of the Budget	0.9	1.2	0.5	0.5
Global Insight	1.0	1.0	0.2	0.5
Moody's Economy.com	1.0	1.0	(0.2)	0.1
Wages				
Ways and Means	7.8	8.4	2.8	3.8
Division of the Budget	7.6	8.3	3.3	3.6
Global Insight	7.6	8.0	3.8	4.5
Moody's Economy.com	7.6	7.7	1.1	3.1
<i>Sources: NYS Assembly Ways and Means Committee staff; New York State Division of the Budget, 2008-09 Executive Budget Supplemented for 21-Day Amendments, February 12, 2008; Moody's Economy.com, February 2008; Global Insight, February 2008.</i>				

- The NYS Assembly Ways and Means Committee staff's New York State **wage growth forecast** for 2008 is 2.8 percent. This is lower than the Division of the Budget and Global Insight, but higher than Moody's Economy.com forecast. New York State wages are forecast to grow 3.8 percent in 2009.
- **Wage growth in New York State** is expected to be 2.8 percent in 2008, following an estimated 8.4 percent in 2007. Due to recent developments that may limit profits and revenues on Wall Street, variable wages (a key component of NYS wages) are not expected to grow as in recent years. In 2008, variable wages are forecast to fall

2.7 percent, compared to an estimated growth of 36.8 percent in 2007 and 30.3 percent in 2006. Base wages will grow steadily throughout the forecast period, although at a slower pace than in 2006.

New York State Economic Outlook				
(Percent Change)				
	Actual	Estimate	Forecast	Forecast
	2006	2007	2008	2009
Employment	1.0	1.2	0.3	0.7
Personal Income	7.5	7.6	3.7	4.8
Total Wages	7.8	8.4	2.8	3.8
Base Wages	5.6	4.9	3.7	4.1
Variable Compensation	30.3	36.8	(2.7)	1.7
New York Area CPI	3.8	2.8	2.9	2.4

Note: 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.

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

- **Securities industry profits** remained strong in the first half of 2007, especially due to strong merger and acquisition activity. However, profits turned negative in the third quarter and will likely weaken in 2008 and 2009 compared to the 2007 annual total. Activity such as mergers and acquisitions and initial public offerings will fail to keep pace with record levels seen in 2007, and write-downs and other fallout from the credit crunch will continue.
- **New York State securities industry employment** may be impacted more than the rest of the nation by lay-offs in the industry due to the high concentration of finance jobs in the New York City area. Many cuts in the industry have been announced.
- The State economy is quite susceptible to changes in the securities industry, especially the variability in **bonuses** from year to year, as the bonuses paid by the securities industry are a major driver of State variable wages. In 2008, the possibility of lay-offs, continued write-offs, and lower earnings represent a risk for the industry outlook and the New York State forecast. However, the possibility of higher bonus payouts than assumed in this report represents an upside potential to New York State wages and personal income. If the credit crunch affects Wall Street less severely, or should Wall

Street find innovative ways to operate profitably under restrained credit conditions, the outlook for Wall Street could be better than anticipated.

- **Capital gains** in New York State grew an estimated 12.4 percent in 2007. Capital gains are expected to decline 12.1 percent in 2008, affected by the real estate market correction and the expected decline in equity prices. As equity markets rebound and the overall economy improves, capital gains growth is forecast to increase by 3.5 percent in 2009.

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UNITED STATES FORECAST

Economic growth slowed significantly in 2007 due to a rapid decline in housing market activity and its negative fallout spilling over to other sectors of the economy. Residential construction spending, which accounts for about a third of total private fixed investment spending, declined 23.9 percent (annualized) in the fourth quarter of 2007. It was the eighth consecutive quarterly decline since the fourth quarter of 2005. The national economy would have grown by 3.2 percent during 2007, instead of 2.2 percent, if residential construction activity had been excluded from real Gross Domestic Product (GDP) (see Figure 1).¹

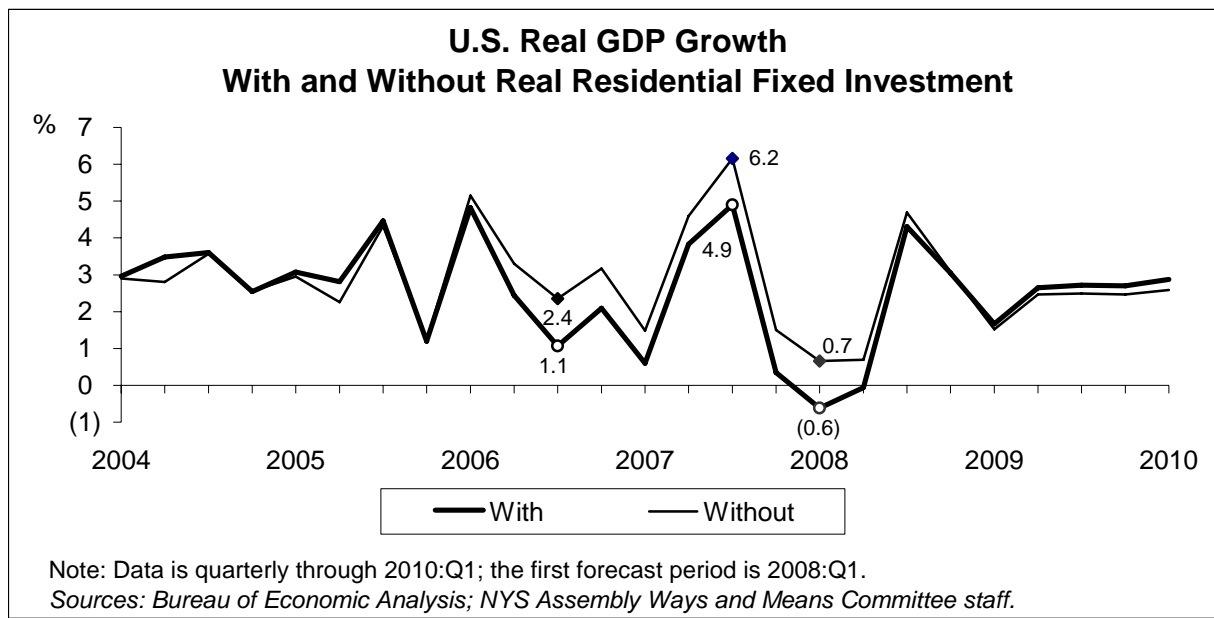


Figure 1

Various indicators still point to a further deterioration in the housing market. Home sales have been falling. Foreclosures and inventories of unsold new homes have been rising. As a result, housing starts and permits have been dropping markedly (see Figure 2). Homebuilders' confidence has dropped to levels not seen since 1991 (see Figure 3). Home prices have also been falling at a record quarterly rate (see Figure 20 on page 18).

¹ "Real" values are in constant dollars and are also referred to as inflation-adjusted.

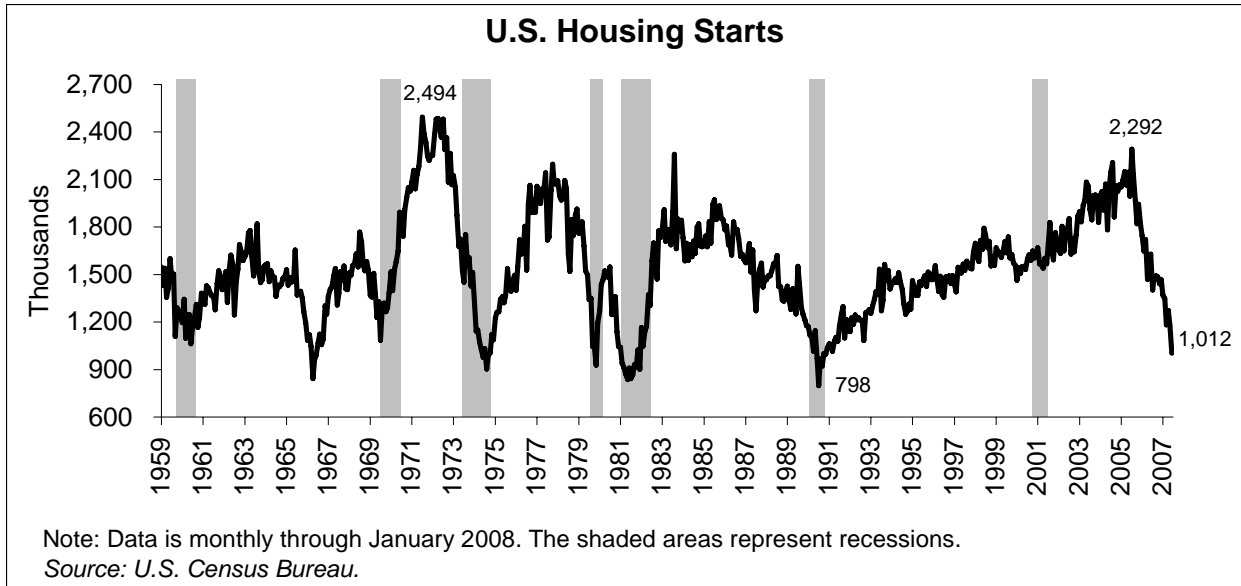


Figure 2

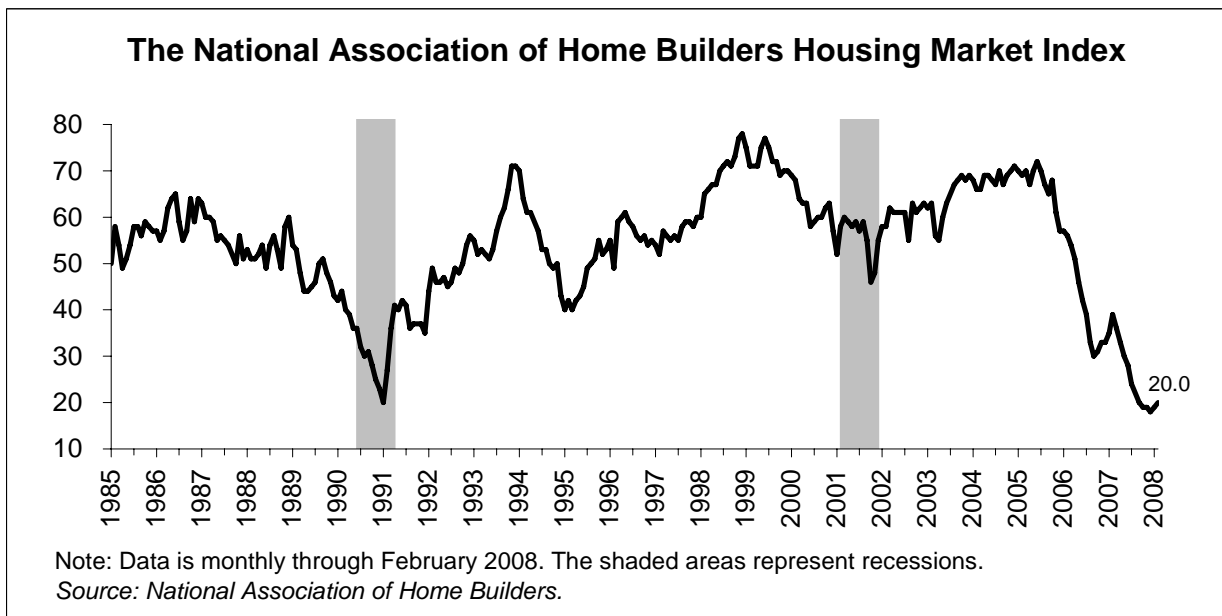


Figure 3

The ongoing correction in the housing market is worrisome. Housing (the production of housing as well as the value of housing services produced by the housing stock) accounts for about 15 percent of U.S. aggregate economic activity. Housing not only has direct effects on the construction sector but also indirect effects on personal

consumption spending through income and housing wealth effects—in particular through the so-called mortgage equity withdrawal by homeowners. Home equity cash-out appears to have fallen sharply, causing consumer spending to weaken (see Figure 11).

Worse yet, since the subprime mortgage crisis surfaced in the summer of 2007, risk in general has been repriced, pushing the risk premium higher and making credit conditions tighter even outside residential mortgage markets (see Figure 4). As a result, the possibility of a housing market recovery any time soon is more remote. Furthermore, financial markets in general have been volatile lately as investor confidence plummets in light of growing uncertainties. As the confidence of both consumers and businesses falls, a worry has emerged that consumers may retrench further and become increasingly more cautious of spending, while businesses may cut back on any future hiring and spending plans.

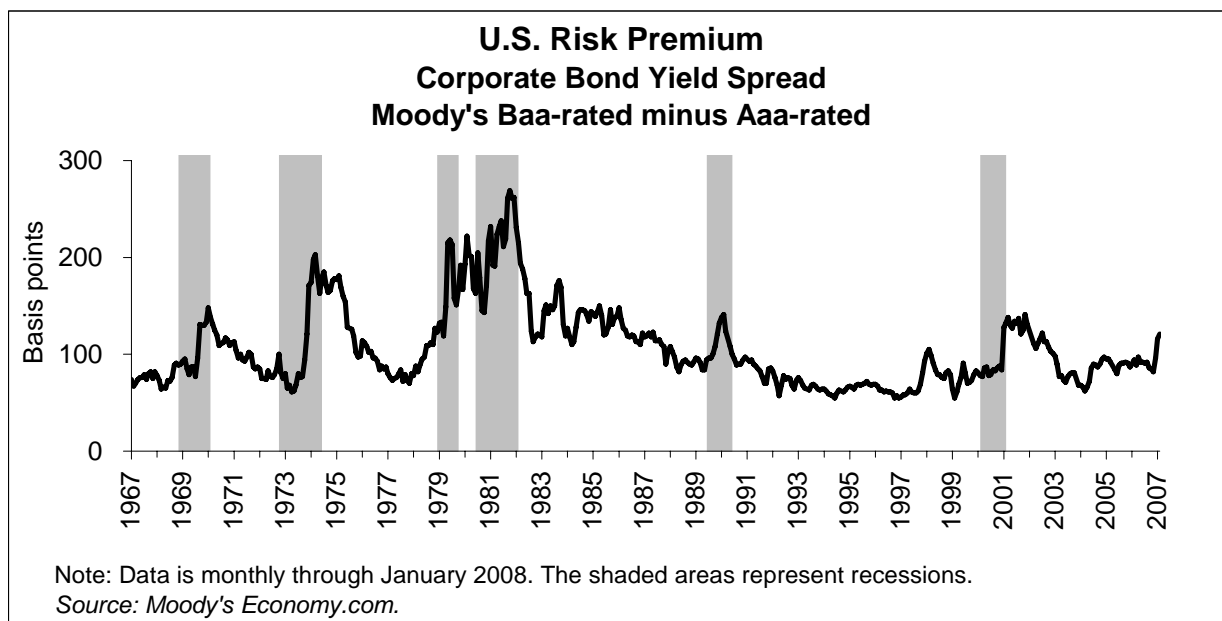


Figure 4

Signals from various incoming data are increasingly pointing to further weakening of the economy. Personal consumption spending, which accounts for about two-thirds of the nation's economic activity, remained about flat in December 2007. New orders for consumer durable goods declined again in December, the fifth consecutive monthly decline indicating a consumer retrenching is well under way. The rate of unemployment jumped up by 0.3 percentage point to 5.0 percent in December 2007, the highest in twenty-five months and the largest one-month increase in six years (see Figure 5).

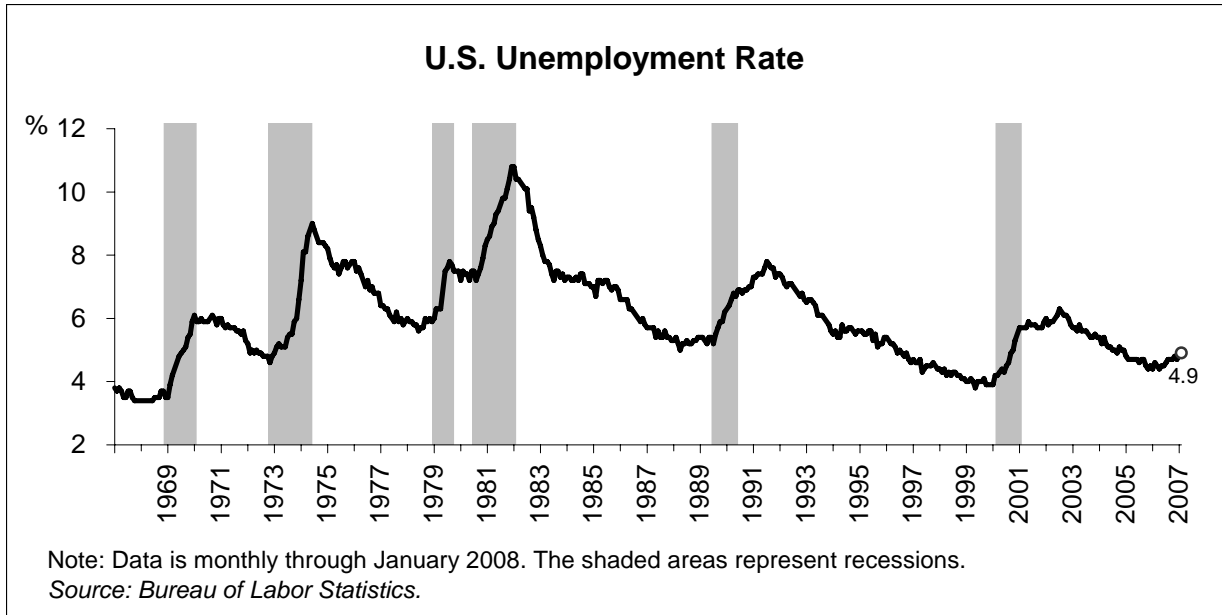


Figure 5

The year-over-year growth rate of the household survey-based employment has dropped sharply by 1.8 percentage points from 2.0 percent in January 2007 to a mere 0.2 percent in January 2008.² Payroll jobs fell by 12,000 in January 2008, the first decline since August 2003. The delinquency rate for commercial banks' residential real estate loans surged to 2.9 percent in September 2007, the highest level in fifteen years. The January 2008 reading of the non-manufacturing business activity index reported by the Institute of Supply Managers fell by 12.8 percentage points to 44.6, well below the threshold value of 50. This indicates that the nation's service sector contracted sharply last month, the first such contraction since March 2003. The Chicago Fed National Activity Index (CFNAI), a coincident indicator of the business cycle as a weighted average of 85 monthly indicators of national economic activity, fell to -0.67 on a three-month moving average basis in December 2007, very close to the threshold value of -0.70.³ The Conference Board composite index of leading indicators, a key gauge of future economic activity, has fallen seven out of twelve months in 2007 with the index falling the last three months in a row—a pattern similar to the one seen during the months leading up to the 1990-91 recession (see Figure 6).

² Although establishment survey-based payroll employment data shows a relatively less sharp cooling in the labor market in recent months, the data is often subject to sizable revisions.

³ According to the Chicago Fed, when the 3-month moving average CFNAI value moves below -0.70 following a period of economic expansion, there is an increasing likelihood that a recession has begun.

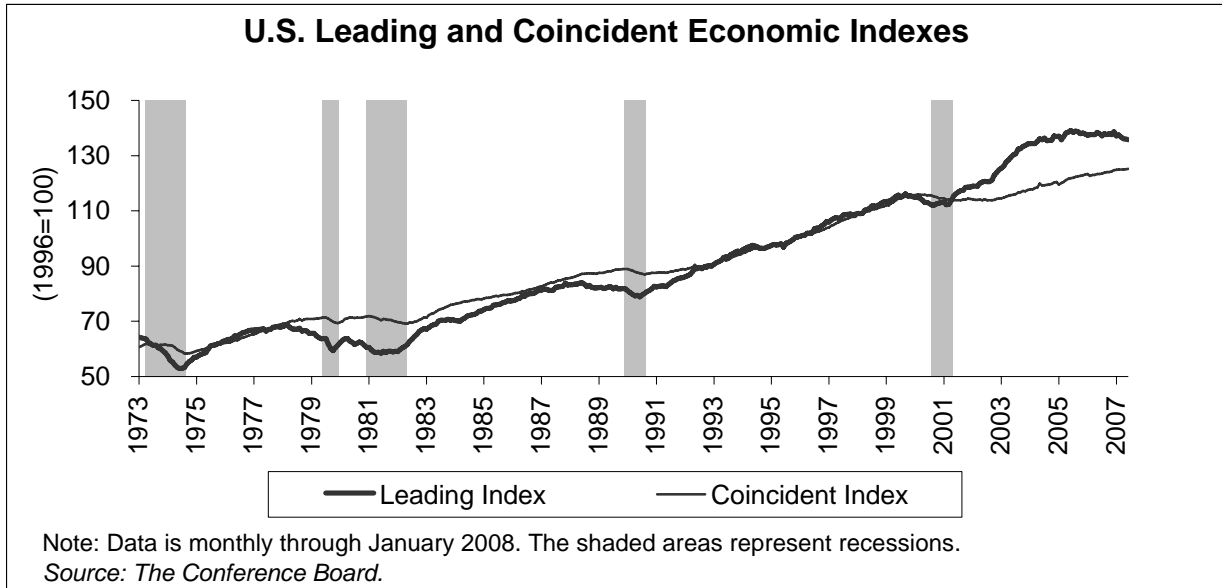


Figure 6

Although signals from some other monthly indicators still remain positive, the U.S. economy is forecast to experience a downturn in general economic activity during the first half of 2008.⁴ U.S. real Gross Domestic Product (GDP) is forecast to decline 0.6 percent in the first quarter of 2008 and another 0.1 percent in the second quarter. The national economy is expected to rebound above trend during the second half of 2008 (see Table 1).

This relatively mild and short-lived economic downturn scenario is based on the assumption that businesses and consumers will gradually regain their confidence in the fundamental health of the economy, and the Fed’s continued commitment to maintaining stable economic growth (see Appendix A). Given the relatively large household debt burden accumulated in recent years, the stimulus effect from the recent federal economic stimulus package may be limited. It is assumed that households will spend 30 to 40 percent of the tax rebate money, which will have some positive impact on consumption. Another crucial assumption is that global economic growth will remain robust, resulting in the U.S. trade deficit being less of a drag on economic growth.

⁴ For example, average weekly initial unemployment insurance claims were 342,000 in December 2007, a level well below the 402,000 at the onset of 1990-91 recession and the 418,000 at the onset of the 2001 recession. New orders for manufactured durable goods rose 5.2 percent in December 2007, following a mere 0.5 percent gain in the previous month. The Conference Board composite index of U.S. coincident economic indicators, another representative gauge of current economic activity, is still on the rise, indicating the U.S. economy is still expanding (see Figure 6).

Table 1

U.S. Economic Outlook				
(Percent Change)				
	Actual	Estimate	Forecast	Forecast
	2006	2007	2008	2009
Real GDP	2.9	2.2	1.5	2.5
Real Consumption	3.1	2.9	1.5	2.1
Real Investment	2.7	(4.7)	(3.6)	3.2
Real Exports	8.4	7.9	6.9	6.3
Real Imports	5.9	2.0	1.9	3.4
Real Government	1.8	2.1	2.5	1.7
<i>Federal</i>	2.2	1.7	3.4	2.2
<i>State and Local</i>	1.6	2.3	1.9	1.5
Personal Income	6.6	6.2	3.8	4.9
<i>Wages & Salaries</i>	6.2	5.8	3.5	4.5
Corporate Profits (Economic Basis)	13.2	2.6	(2.7)	7.6
Productivity	1.0	1.6	1.8	1.9
Employment	1.8	1.1	0.3	0.9
CPI-Urban	3.2	2.9	2.9	2.3
S&P 500 Stock Price	8.6	12.8	(5.2)	6.2
Treasury Bill Rate (3-month)*	4.7	4.4	1.6	2.7
Treasury Note Rate (10-year)*	4.8	4.6	3.6	4.2
* Annual average rate.				
Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; Federal Reserve Board of Governors; Standard & Poor's; NYS Assembly Ways and Means Committee staff.				

Gross Domestic Product

The U.S. economy, as measured by real GDP growth, slowed to an estimated 2.2 percent in 2007, after expanding 2.9 percent in 2006 (see Figure 7). Accounting for the slowdown in 2007 was slower growth in personal consumption spending and a sharp decline in private investment spending (see Figure 8). A continued falloff in residential construction activity was primarily responsible for the weakness in overall private investment spending.

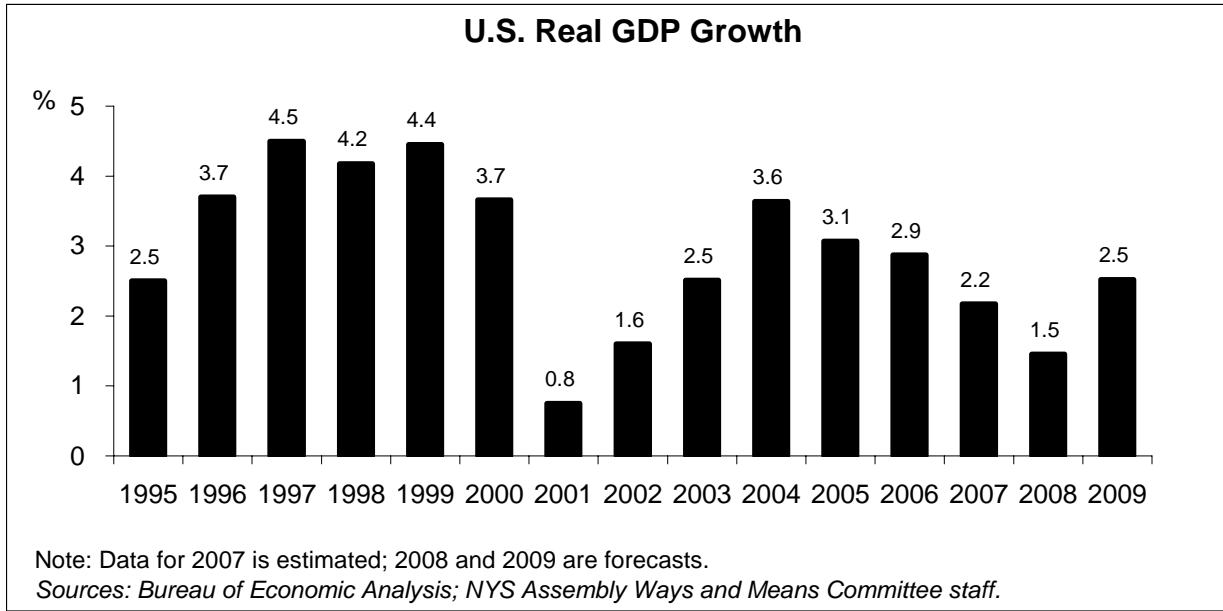


Figure 7

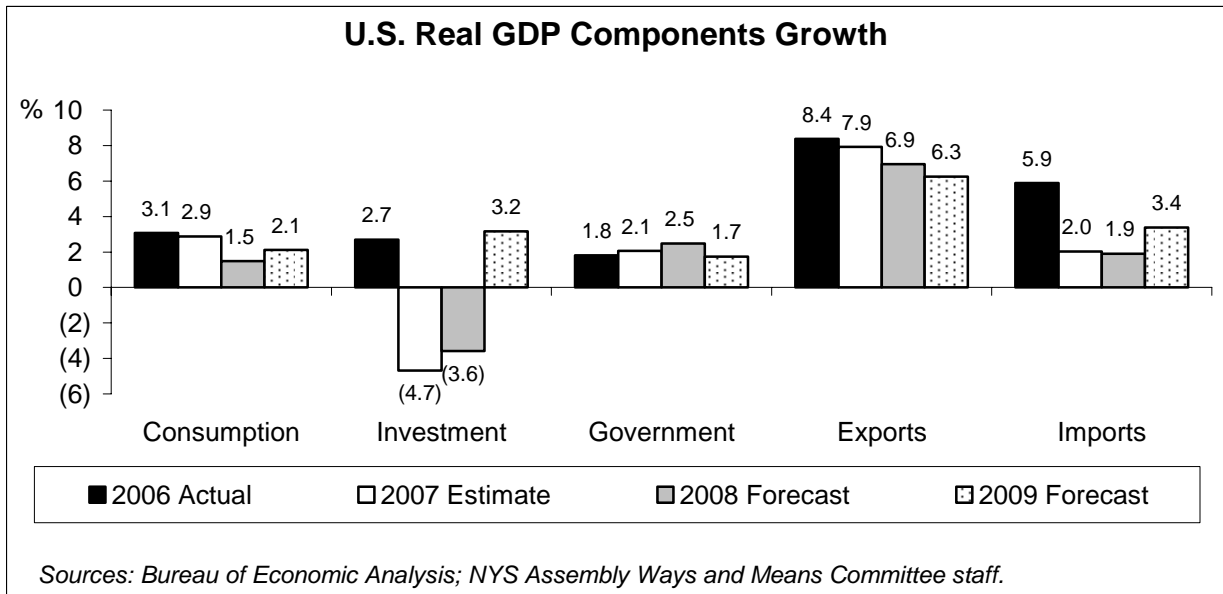


Figure 8

U.S. real GDP is forecast to decline in the first half of 2008 and rebound above trend in the second half, growing 1.5 percent year-over-year for the whole year—the slowest overall economic growth in six years. As consumers become increasingly cautious and squeezed by high energy prices, falling home values, and tightening credit conditions, personal consumption spending growth is forecast to fall sharply to 1.5 percent during

2008—the weakest yearly gain since 1991. Residential construction activity is expected to continue to slide throughout 2008 before it begins to stabilize. Despite continued gains expected in business capital and structure spending, overall private investment spending is forecast to decline further in 2008, with another double-digit rate of decline expected in residential construction activity. The public sector will continue to add to overall economic growth. The foreign sector will likely continue to be less of a drag. With the housing market expected to stabilize and consumer spending to regain strength in 2009, the national economy is anticipated to rebound to 2.5 percent in 2009, a rate close to the long-term trend.

Consumption

Despite the ongoing correction in the housing market and its negative impact on household wealth and consumer sentiment, personal consumption spending, adjusted for inflation, grew an estimated 2.9 percent in 2007 after growing 3.1 percent during 2006 (see Figure 9). With growth in real disposable personal income expected to be restrained by slower overall economic growth and higher energy prices, real personal consumption spending growth will slow markedly to 1.5 percent in 2008. Real consumer spending growth is forecast to rebound to 2.1 percent in 2009, as overall economic growth is expected to return to a near-trend rate.

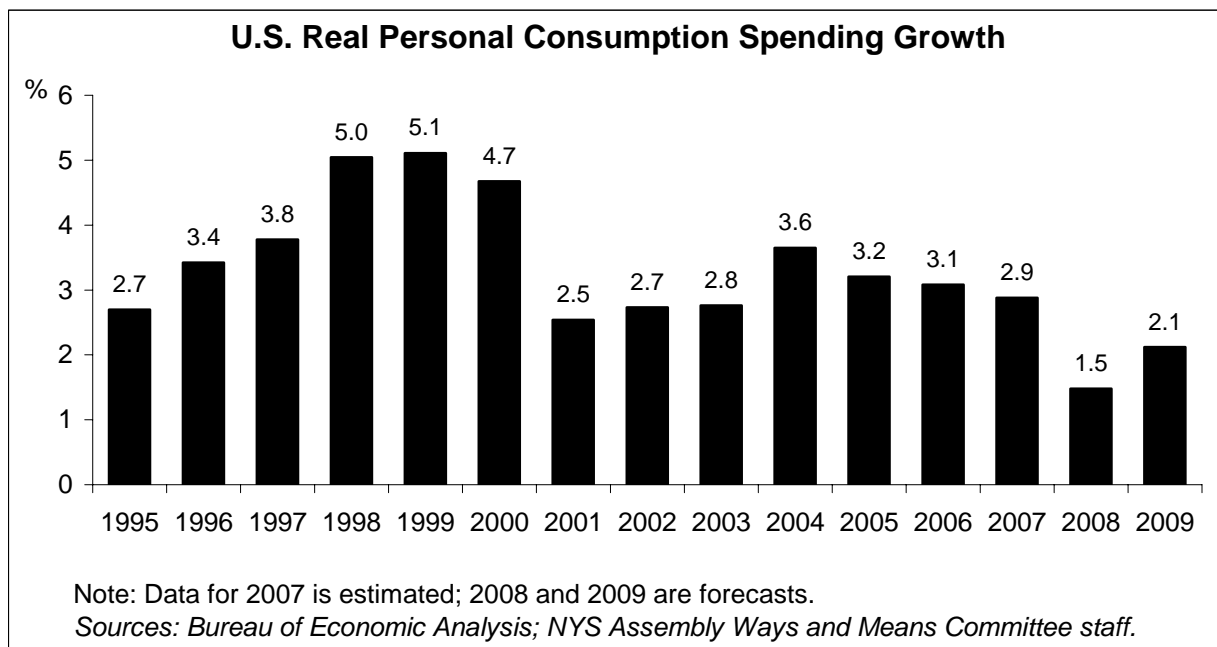


Figure 9

Personal consumption spending growth in 2006 was attributed mainly to a tight labor market with rising hourly wages and a solid gain in real disposable personal income (see Figure 10). Low interest rates supported growth in personal consumption spending by stimulating extraordinary gains in the financial markets that bolstered household wealth. This was encouraged by many homeowners refinancing their mortgages. Going forward, consumption spending growth throughout the forecast period will be supported mainly by continued but weakened gains in employment and disposable personal income. Rising energy prices could dampen consumer spending further as consumers feel their purchasing power erode (see Table 3 on page 33).

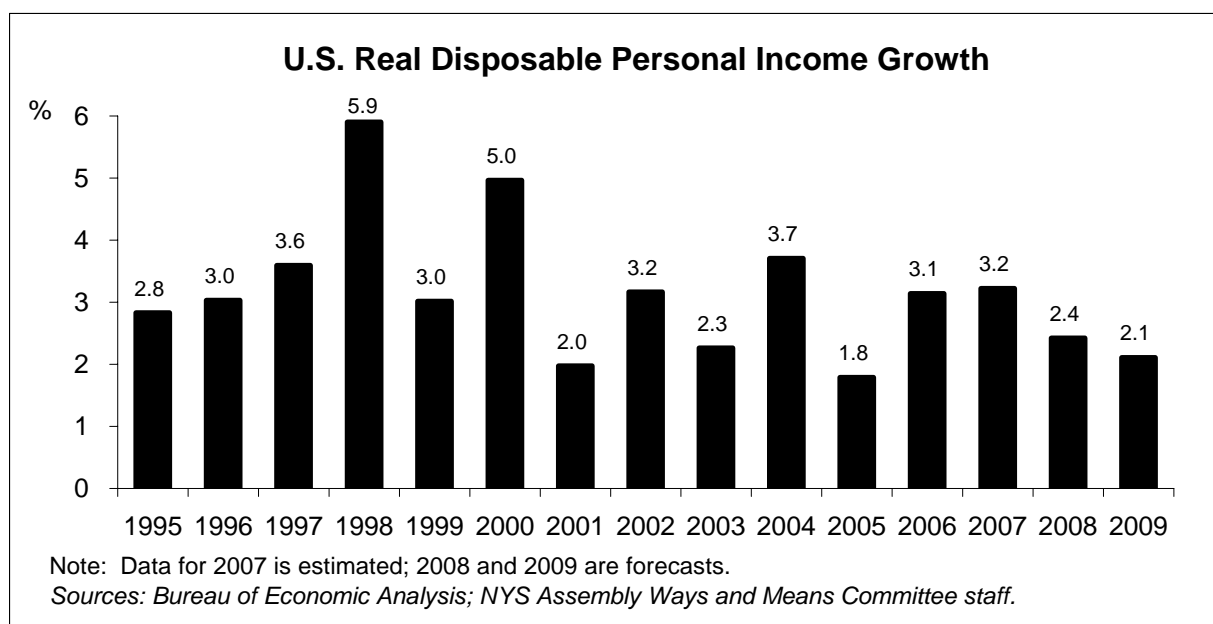


Figure 10

The extent to which the depressed housing market spills over into the rest of the economy poses certain risks to the growth of real personal consumption spending. Up until the second quarter of 2007, mortgage equity withdrawals (MEW) had remained relatively stable, explaining why consumers continued to spend, even with a slowdown in overall economic growth from 2006. With home prices likely to fall further and lending standards expected to remain tightened in 2008, household access to home equity withdrawals will likely diminish, forcing consumers to be more cautious of spending (see Figure 11).⁵

⁵ A debate has ensued about the degree to which the negative wealth effect associated with a fall in housing values reduces consumer spending. See Joel L. Prakken, "Macroeconomic Spillovers from the Housing and

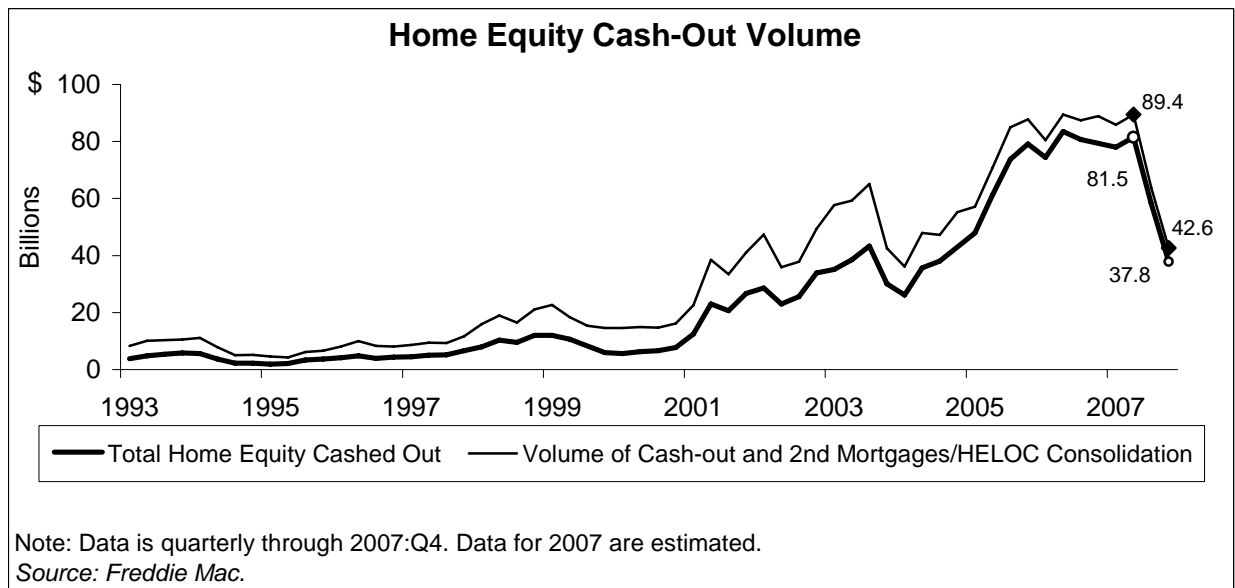


Figure 11

Despite home price depreciation, household net worth continued to gain in 2007, albeit at a more restrained pace than in 2005 and 2006.⁶ In prior years, growth in household wealth was due to steady gains in real estate values and continued increases in corporate equity values. In 2008, household net worth is expected to fall not only from the ongoing correction in the housing market, but also as the spillover effects from the housing market take its toll in the financial markets. Corporate equity markets suffered significantly since the fourth quarter of 2007 (see Figure 35 on page 41). Though households have been changing the composition of their portfolios to include more mutual funds and other financial assets instead of real estate holdings, household net worth is not anticipated to rebound until 2009.⁷

Credit Crunches," (Macroeconomic Adviser's 97th Quarterly Outlook meeting, Washington, DC) December 12, 2007; Jonathan McCarthy and Charles Steindel, "Housing Activity, Home Values, and Consumer Spending," *Innovations in Real Estate Markets: Risks, Rewards, and the Role of Regulation*, Federal Reserve Bank of Chicago, 2006.

⁶ Home price depreciation is based on the S&P/Case-Shiller National Home Price Index.

⁷ In the third quarter of 2007, corporate equity holdings fell \$44.2 billion; real estate holdings increased only \$53.6 billion, down from its third quarter peak in 2005 of \$583.4 billion; mutual funds holdings rose \$112.1 billion; and money market mutual funds increased \$87.8 billion, the second largest on record. See Board of Governor's of the Federal Reserve System, *Flow of Funds Accounts of the United States*, Federal Reserve, (Washington) December 6, 2007.

When outstanding credit rises as a proportion of personal income, higher delinquency rates are at hand. The ratio of consumer outstanding credit to personal income is currently trending upward. The tightening of credit conditions, which is expected to lead to a drop in MEW, has forced consumers to seek other forms of credit. In particular, credit card usage has been rising in recent months. While growth in consumer credit may have a short-term positive effect on consumption spending, concern arises about the additional financial stress on households. Delinquency rates, though below their historical highs, have been rising and are expected to get worse in 2008 (see Figure 12). Eventually, revolving credit will decline as households try to balance their financial obligations with less access to liquidity. This will put downward pressure on consumer spending.

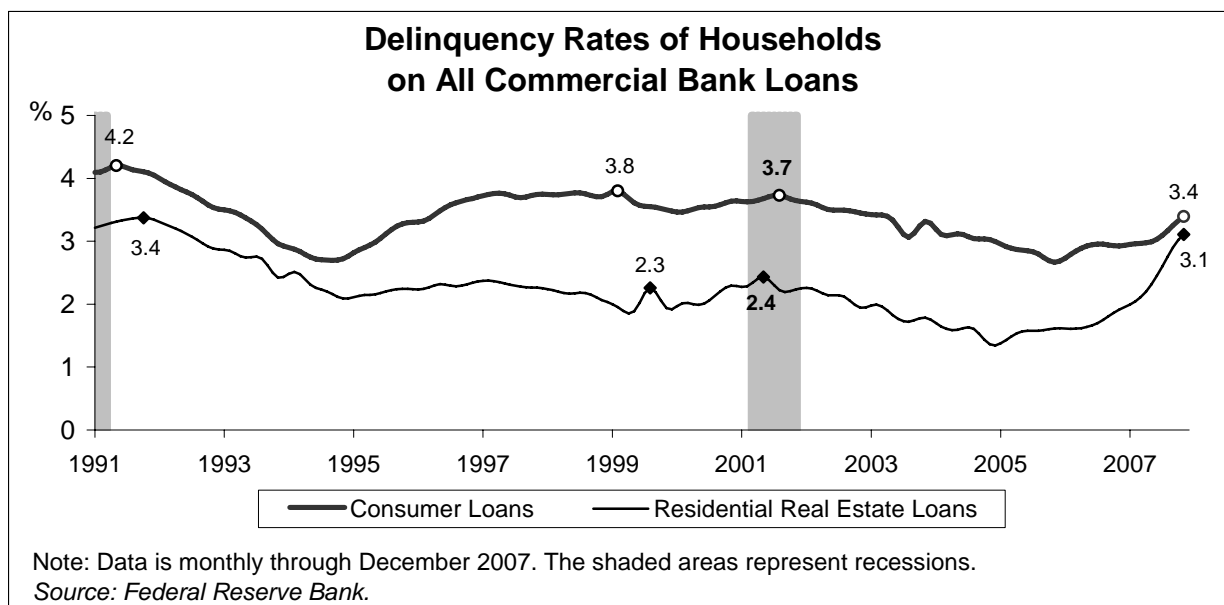


Figure 12

In the past, a sharp decline in consumer confidence signaled a recession (see Figure 13). The decline in consumer sentiment since August 2007 suggests that consumers are retrenching due to the uncertainty in the economy. If growth in employment continues to slow, prices continue to increase, housing prices fall further and credit tightens more, consumer confidence will further diminish, causing consumers to cut back further.

The White House and Congress hope that the Economic Stimulus Act of 2008 will preempt any further slowdown in overall economic growth by providing tax rebates to

households to spend on consumer goods.⁸ As part of the fiscal stimulus package in 2001, tax rebates of \$300 were sent to individuals and \$600 to couples. Rebates totaled about \$38 billion and were distributed in the third quarter of 2001. Households spent about two-thirds of their tax rebates on consumer goods. The tax rebates increased personal consumption expenditures on non-durables by an estimated 2.9 percent in the third quarter of 2001 and 2.1 percent in the fourth quarter.⁹

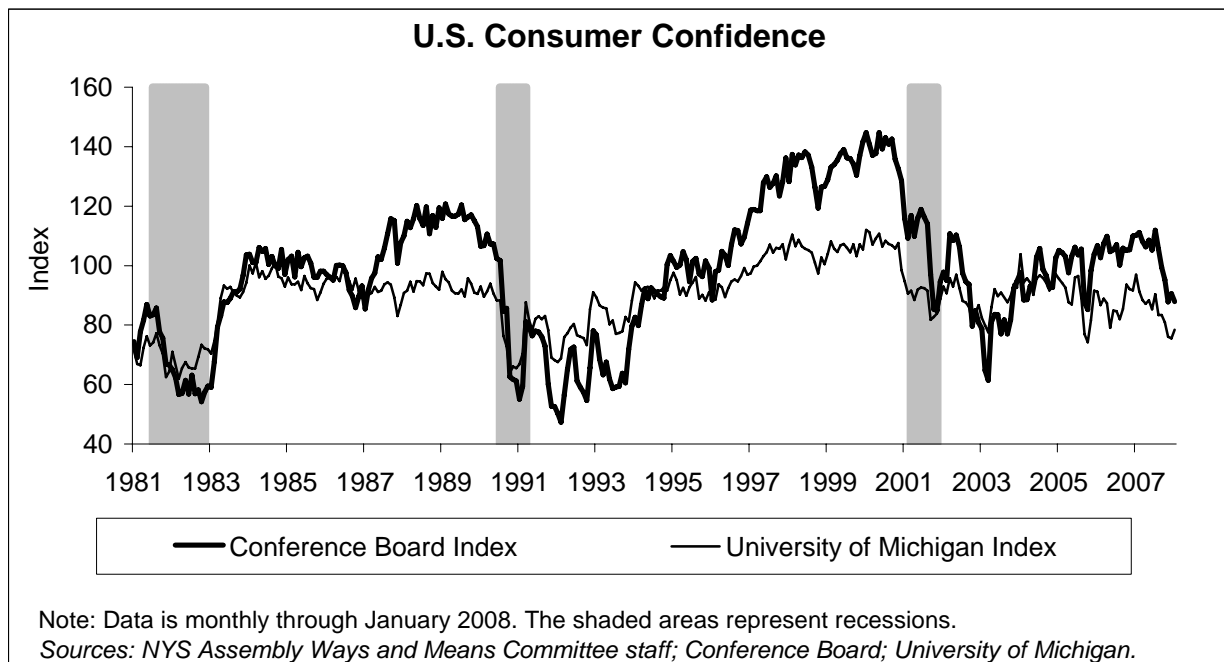


Figure 13

The NYS Assembly Ways and Means Committee staff estimates that approximately 30 to 40 percent of the tax rebates sent to households in the current stimulus package will be spent on consumer durable and non-durable goods. One rationale for the lower percentage compared to 2001 is that households have more debt now, and will possibly pay down outstanding credit balances with their tax rebates.¹⁰ In addition, with an

⁸ For details on the current fiscal stimulus package, see the Economic Stimulus Act of 2008, Public Law no. 110-185, 110th Congress, February 14, 2008. Bill text not yet available, see H.R. 5140: Economic Stimulus Act of 2008, <http://www.govtrack.us/congress/bill .xpd?bill=h110-5140>.

⁹ David Johnson, Jonathan Parker, and Nicholas S. Souleles, "Household Expenditure and the Income Tax Rebates of 2001," *American Economic Review*, vol. 96, no. 5, December 2006, pp. 1589–1610.

¹⁰ Households that are liquidity constrained will tend to spend more, while those that are less constrained will pay down debt. See Sumit Agarwal, Chunlin Liu, and Nicholas S. Souleles, "The Reaction of Consumer Spending and Debt to Tax Rebates: Evidence from Consumer Credit Data," NBER Working Paper no. 13694, National Bureau of Economic Research, (Cambridge, Mass.) December 2007.

economic downturn, households tend to save more in order to stave off any economic hardship. Since households will begin to receive tax rebate checks in May, disposable income is estimated to increase in the second and third quarter of 2008. As a result, real consumer spending growth is forecast to increase from 0.2 percent in the second quarter of 2008 to 4.4 percent and 2.8 percent in the third and fourth quarter, respectively.

Of the main components of personal consumption spending, durable goods contributed 0.4 percentage point to total personal consumption spending growth in 2006, while services and nondurable goods contributed 1.6 percentage points and 1.1 percentage points, respectively. Growth in durable goods consumption grew an estimated 4.8 percent in 2007, primarily due to higher growth in furniture and household equipment purchases. Spending on durable goods is forecast to slow to 1.4 percent in 2008. The falloff on durable goods spending growth in 2008 is attributed to a drop in growth of motor vehicles and parts purchases, as well as the slowdown in spending related to home purchases caused by the continued deterioration in the housing market. As economic conditions are expected to improve, spending on durable goods is forecast to increase by 1.6 percent in 2009 (see Figure 14).

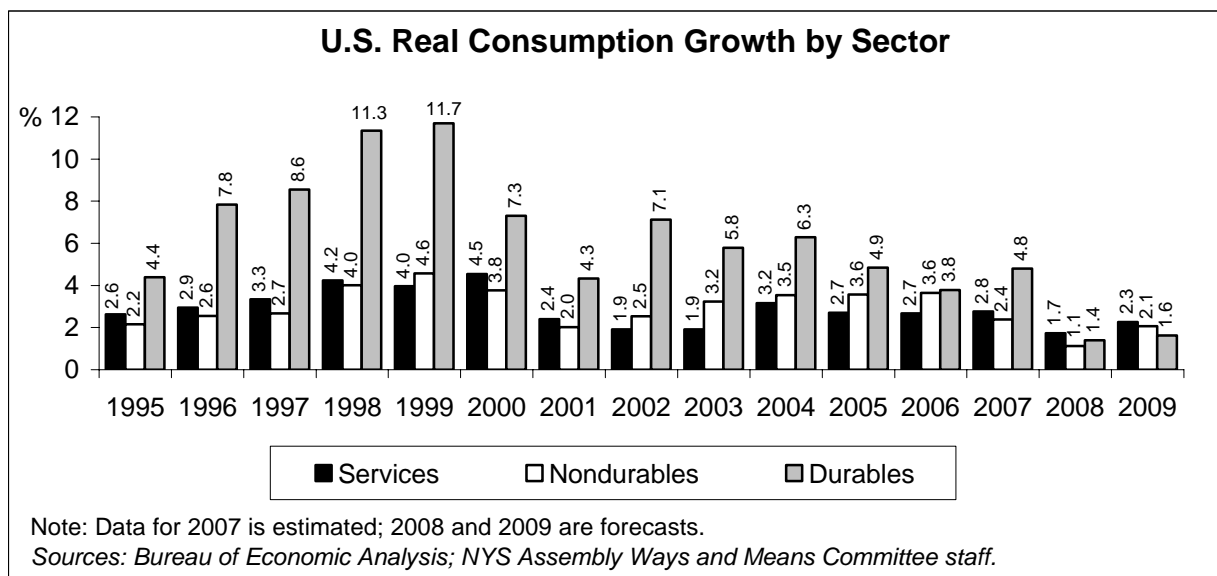


Figure 14

Purchases on nondurable goods such as food, clothing, and gasoline grew by 3.6 percent in 2006, unchanged from 2005 (see Figure 14). Growth was primarily due to sustained growth in food purchases, as well as a sharp increase in the growth of gasoline

and oil purchases from 2005. Growth in total personal consumption spending on nondurable goods slowed to an estimated 2.4 percent year-over-year in 2007, further slowing to 1.1 percent in 2008. Weaker growth in spending on food, gasoline, and oil was the main factor for the decline in nondurable goods growth in 2007. Spending on these goods will slow in 2008. In 2009, nondurable goods spending growth will slightly rebound to 2.1 percent as overall economic conditions are expected to improve.

In 2006, services purchased by consumers accounted for 60 percent of total personal consumption expenditures. Service consumption spending grew at a rate of 2.7 percent in 2006, similar to 2005. Spending on services is estimated to have grown 2.8 percent in 2007, due to a modest increase in spending related to services for household operations, housing, transportation, and medical care. As spending growth on many of these services slows in 2008, growth in services spending will decline to 1.7 percent. With disposable personal income growth and overall economic growth forecast to accelerate in 2009, service consumption spending will increase by 2.3 percent in 2009.

Investment

Residential construction spending, which accounts for about a third of total private fixed investment spending, declined 4.6 percent during 2006, ending a decade-long expansion in the housing sector. Nonetheless, overall private investment spending still managed to increase 2.7 percent in 2006 due to steady increases in business capital spending. In constant dollar terms, business spending on equipment and software grew 5.9 percent in 2006 after increasing 9.6 percent in 2005. Commercial construction spending also increased in 2006, accelerating to 8.4 percent from a mere 0.5 percent gain in 2005.

As the ongoing correction in the housing market slowed down residential construction activity and the fallout spilled over to other sectors of the economy, overall private investment spending declined an estimated 4.7 percent in 2007, the first decline in five years (see Table 1 on page 6). Residential construction spending declined an estimated 17.0 percent in 2007. Business spending on equipment and software gained an estimated 1.4 percent in 2007 compared to 2006. One bright side is commercial construction spending. After three consecutive years of sizable decline followed by two consecutive years of tepid recovery, businesses finally started building up new structures in 2006 and that trend continued throughout 2007. Nonresidential construction spending grew an

estimated 13.2 percent during 2007, the fastest annual expansion in more than twenty years.

Due to increasing inventories of unsold homes, increasing foreclosures and tighter credit conditions, residential construction activity will likely decline further throughout 2008. It is forecast to fall at another double-digit annual rate of 20.5 percent in 2008. With the excesses in the housing market expected to be worked off starting towards the end of 2008, and national economic growth is forecast to return to a near-trend rate in the second half of 2008, residential construction spending is forecast to stabilize and post a gain in 2009 (see Figure 15).

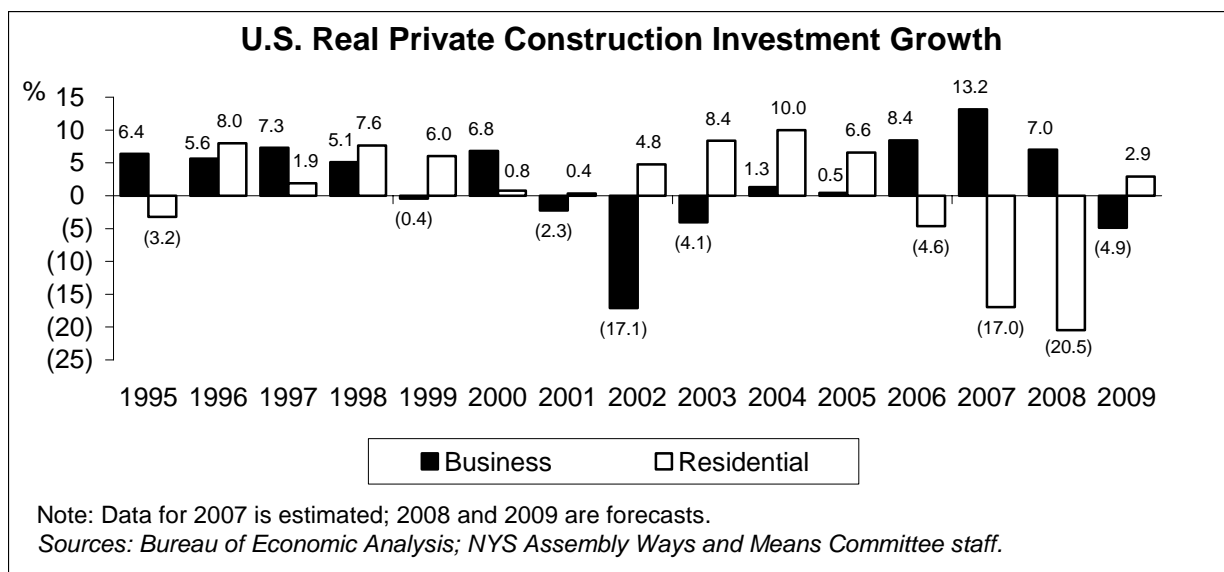


Figure 15

The share of private nonresidential construction spending in total private construction spending has been recovering rapidly after reaching a post-World War II record low of 28.8 percent in the third quarter of 2005 (see Figure 16). The share reached 42.8 percent in the fourth quarter of 2007, and is expected to start falling in the second half of 2008. As indicated by the recent downticks of new orders for construction supplies, nonresidential construction activity will likely start to weaken in 2008 (see Figure 17). It appears that the credit crunch has recently spread to the corporate sector (see Figure 4 on page 3). The spread between Moody's Aaa-rated and Baa-rated corporate bond yields remained relatively low through November 2007. However, the spread rose to 121 basis points in January 2008, the highest in four years. The Federal Reserve's recent survey of loan officers showed that about 80 percent of U.S. commercial banks tightened lending

standards on commercial real estate loans in the past three months, the highest level since 1990 when the survey was conducted for the first time. Private non-residential construction spending is forecast to decline 4.9 percent in 2009 after growing 7.0 percent in 2008.

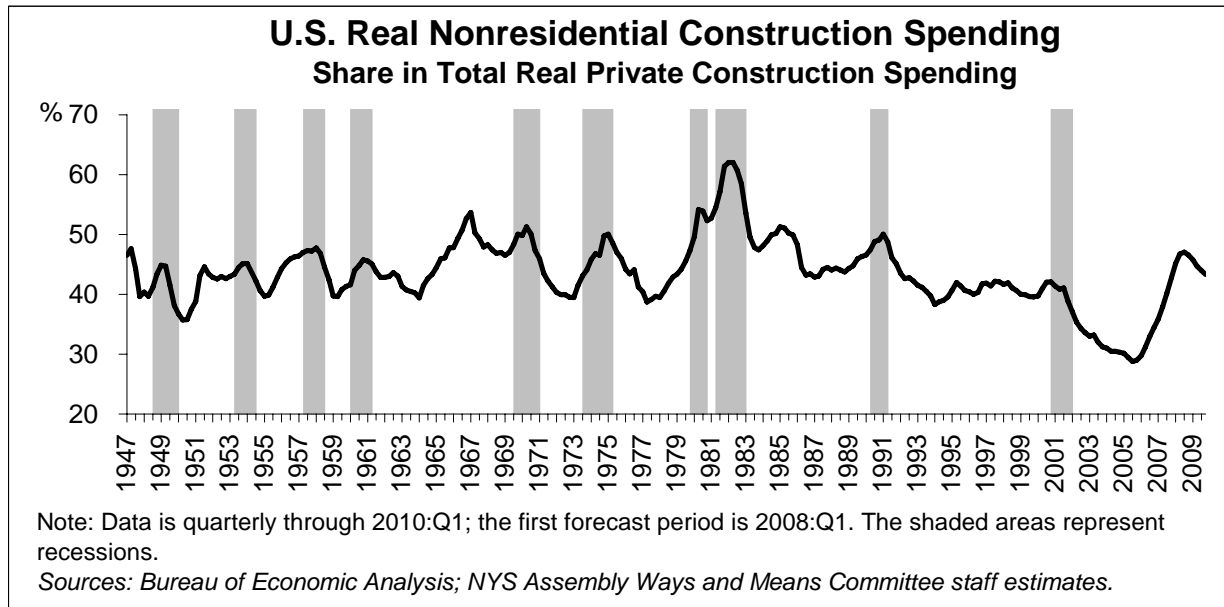


Figure 16

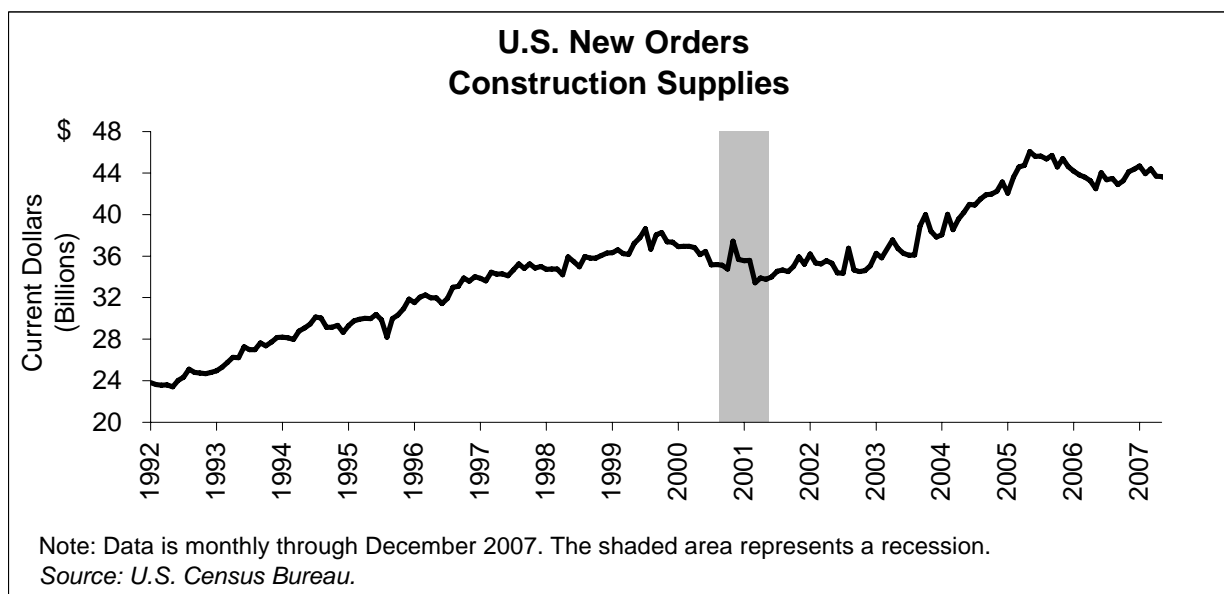


Figure 17

Despite month-to-month volatility, nonmilitary capital goods orders are on an overall upward trend (see Figure 18). As overall economic expansion is expected to resume

in the second half of 2008, business capital orders and spending will likely continue to increase in the next two years. Business spending on equipment and software is forecast to grow 2.5 percent in 2008 and 4.0 percent in 2009 (see Figure 19). Overall private investment spending is forecast to decline 3.6 percent in 2008 and grow 3.2 percent in 2009 (see Table 1 on page 6 and Figure 8 on page 7).

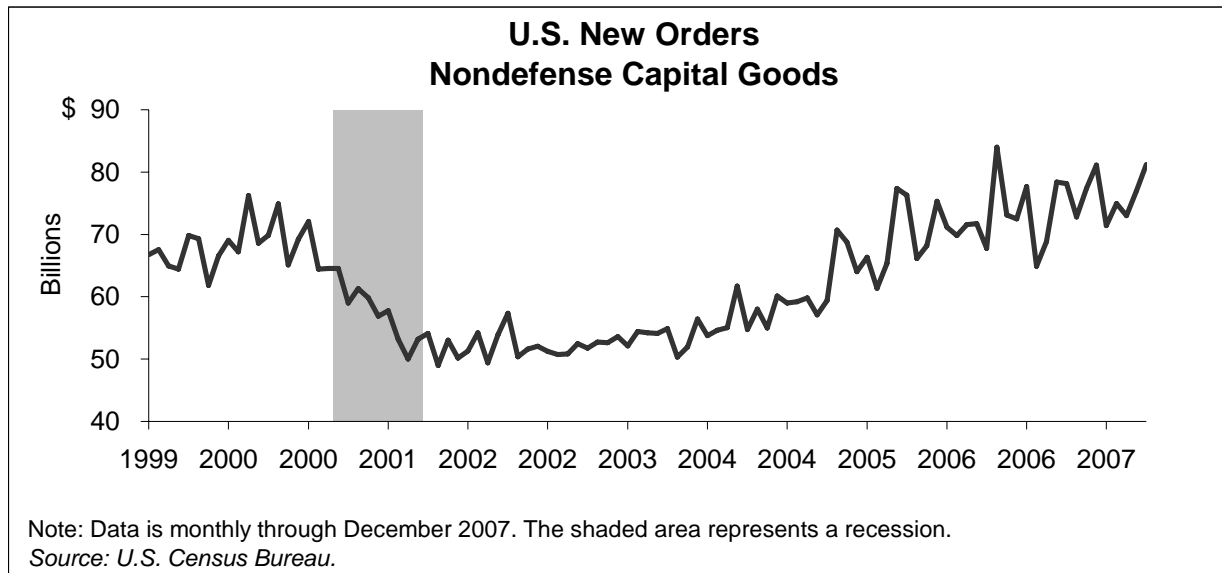


Figure 18

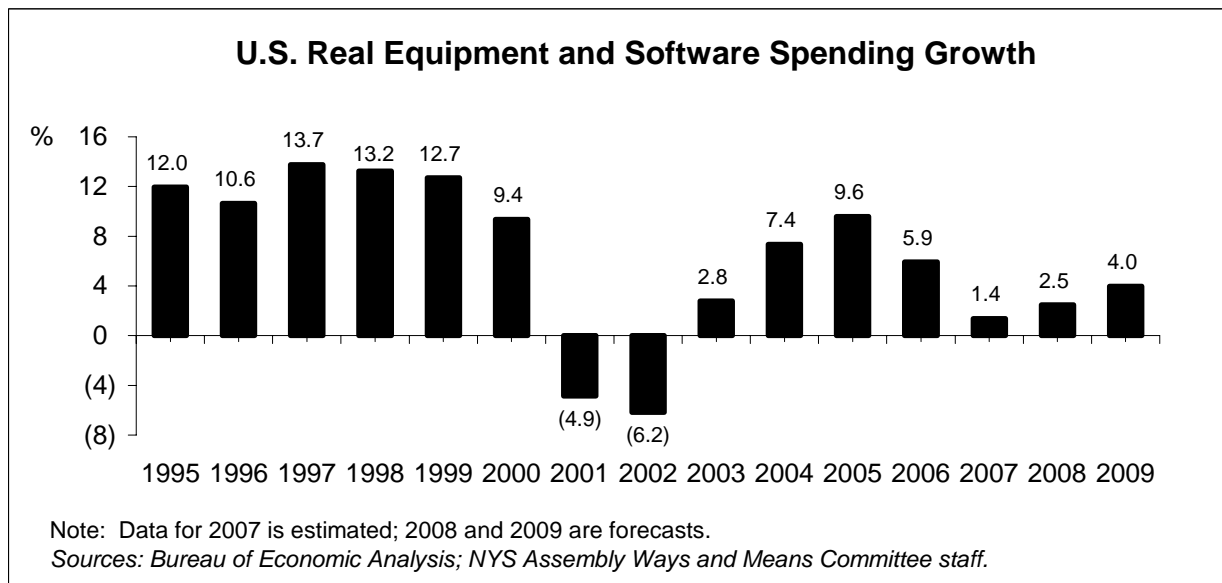


Figure 19

Housing Market

The housing market that gave both the State and national economies a big boost over the past several years started to adjust in the second half of 2006, and has become the biggest drag on the economy. Housing starts fell 27.9 percent in January 2008 compared to the same month in 2007. Similarly, national existing home sales fell 22.0 percent in December 2007 compared to December 2006 while foreclosure filings rose 75.0 percent in 2007.¹¹ The national home price index fell 4.5 percent in the third quarter of 2007 from the same period a year ago, the largest drop since the series began in 1987 (see Figure 20).

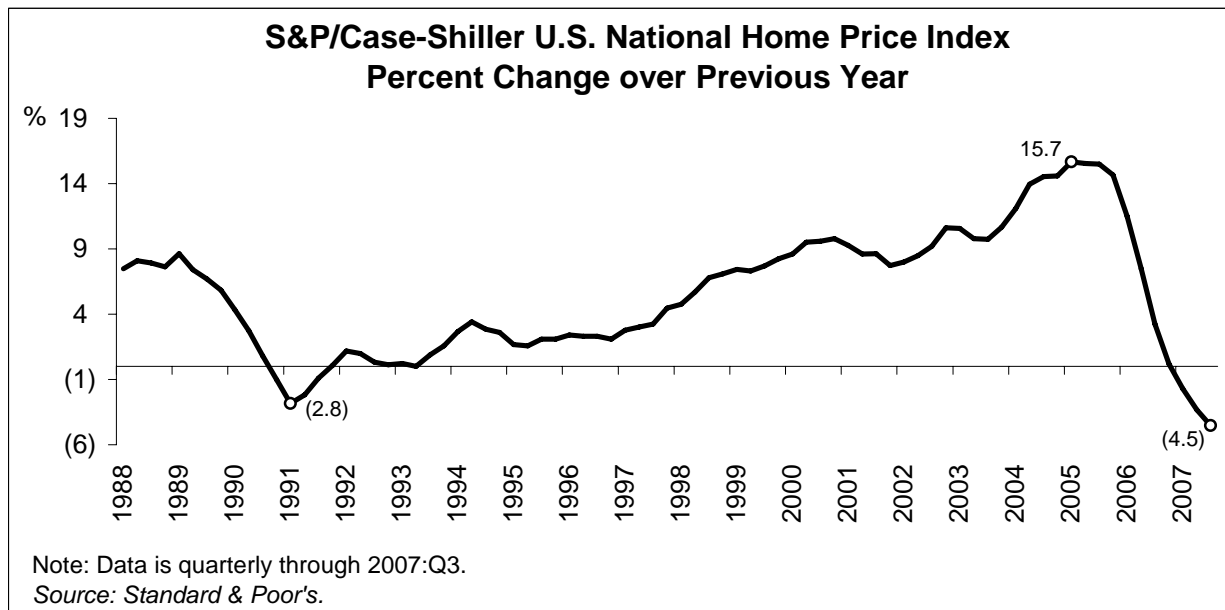


Figure 20

From the first quarter of 1999 to the second quarter of 2006, the national median home price appreciated by 106.3 percent. As home prices appreciated and the demand for mortgages rose during the most recent housing boom, loan originators relaxed their standards. Simultaneously, a variety of nontraditional mortgages such as adjustable rate, balloon payment, interest-only mortgages, and no-documentation loans became available, allowing buyers to purchase houses that would not have been affordable with traditional mortgages.

¹¹ RealtyTrac Staff, "U.S. Foreclosure Activity Increases 75 percent in 2007," *RealtyTrac.com* (Irvine, CA) January 29, 2008, <http://www.realtytrac.com/ContentManagement/pressrelease.aspx?ChannelID=9&ItemID=3988&accnt=64847>.

With adjustable interest rates resetting higher and home prices falling, many households, especially those borrowers who have less than perfect credit (subprime borrowers), are having difficulty making their payments. Some homeowners are forced to sell their houses below market value or default on their loans. It is estimated that two million adjustable-rate mortgages (ARMs) are scheduled to reset from the low “teaser” rate to a much steeper rate in 2007 and 2008.¹² Monthly payments will rise by 30 percent for \$350 billion worth of subprime home loans as the rates reset.¹³

The problems in the subprime mortgage market have caused a tightening of lending standards. Tighter lending standards have made it more difficult to purchase a home or to refinance an ARM into a traditional fixed rate mortgage (FRM). In the third quarter of 2007 national foreclosure filings were up 75 percent from the 2006.¹⁴ It is estimated that more than \$100 billion in property value could be lost due to foreclosures.¹⁵ Rising foreclosures and tightening lending standards have led to an oversupply of homes in the market. This will likely prolong the current correction in the housing market and restrain home prices from appreciating any time soon.

Various efforts have been made by both state and federal governments to help relieve this problem. On December 7, 2007, the federal government announced a relief plan to protect certain homeowners from foreclosure by asking lenders to freeze loans at current rates for five years. It is uncertain on how well this plan will work as the problem is widespread and there are many homeowners who do not qualify for the plan.

Government Spending

Federal government spending grew 2.2 percent in 2006. Outlays for defense and disaster relief were the main components of growth in federal spending in 2006.¹⁶ Growth

¹² Associated Press: Washington, “Treasury Official: Subprime Upheaval Not Over, Economy is Still Sound, However,” CNNMoney.com, September 5, 2007; http://money.cnn.com/2007/09/05/real_estate/subprime_not_played_out/index.htm.

¹³ Stacy-Marie Ishmael and Saskia Scholtes, “Subprime Losses Set to Widen,” *Financial Times*, September 26, 2007, p. 19.

¹⁴ RealtyTrac Staff, “U.S. Foreclosure Activity Increases 75 Percent in 2007,” *RealtyTrac.com* (Irvine, CA) November 1, 2007, <http://www.realtytrac.com/ContentManagement/pressrelease.aspx?ChannelID=9&ItemID=3988&acct=64847>.

¹⁵ Joint Economic Committee, U.S. Senate, *The Subprime Lending Crisis: The Economic Impact on Wealth, Property Values, and Tax Revenues, and How We Got Here*, October 2007; <http://www.jec.senate.gov/Documents/Reports/10.25.07OctoberSubprimeReport.pdf>.

¹⁶ Federal government spending refers to the National Income and Product Accounts (NIPA) definition, which does not include transfer payments such as spending on Medicare and Medicaid. Health care programs are a

in spending slowed to an estimated 1.7 percent in 2007 due to lower growth in nondefense spending on structures, equipment, and software (see Figure 21).

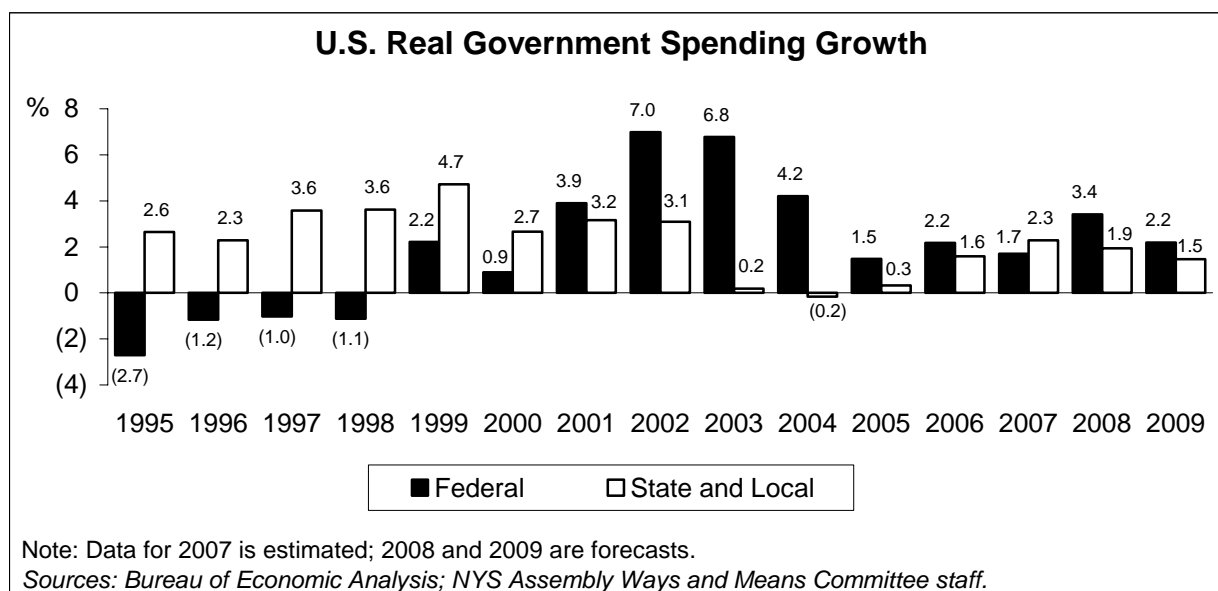


Figure 21

In 2008, federal spending is forecast to increase to 3.4 percent as outlays for the maintenance and procurement of military equipment rise. Compensation to civilian and military employees in Iraq and Afghanistan will also contribute to federal spending growth in 2008, though the anticipated pull down of some troops from Iraq in 2008 will mitigate some of the outlays in spending. The appropriations for the wars in Iraq and Afghanistan were \$165 billion for fiscal year 2007.¹⁷ For fiscal year 2008, the estimated funding for these wars is expected to be over \$200 billion, of which \$88 billion has been appropriated so far.¹⁸ In 2009, federal spending growth is anticipated to slow to 2.2 percent as some troops are withdrawn from Iraq and Afghanistan.

significant portion of mandatory government spending and continue to augment annually because of higher costs.

¹⁷ Congressional Budget Office, *Analysis of the Growth in Funding for Operations in Iraq, Afghanistan, and Elsewhere in the War on Terrorism*, February 2008.

¹⁸ In the U.S. Budget for fiscal year 2008, the President made an initial request for the wars in Iraq and Afghanistan of \$141.7 billion, which was in addition to \$70 billion from the 2007 Defense Appropriations Act. Since the budget was enacted, an additional \$47.6 billion in amendment and supplemental funding has been requested. See Congressional Budget Office, *An Analysis of the President's Budgetary Proposal for Fiscal Year 2008*, March 2007; Office of Management and Budget, *Budget of the United States, Fiscal Year 2008*, pp. 43-50, <http://www.whitehouse.gov/omb/budget/fy2008/>; and U.S. Department of Defense, *DOB News, Briefing with Press Secretary Geoff Morrell from the Pentagon*, News Transcript, September 26, 2007. For appropriation information see Consolidated Appropriation Act of 2008, Public Law no. 110-161, 110th

Expenditures related to disaster preparedness such as flood insurance, disaster relief, and agricultural programs have been lower than in 2006 due to a quiet hurricane season. However, such natural disasters remain a constant risk to the forecast on federal government spending. If the current economic climate continues to worsen, outlays on transfer payments, including unemployment insurance and temporary assistance, could significantly increase as more people who lose their jobs or fall on hard times seek aid.

The federal budget deficit decreased as a result of strong revenue growth in 2006, mostly from individual and corporate income taxes. The deficit was 1.2 percent of GDP in fiscal year 2007, down from 1.9 percent in 2006.¹⁹ For fiscal year 2007, the federal budget deficit was at its lowest level in five years. The shrinking deficit stemmed from spending on defense, healthcare, interest payments, and social security being offset by higher receipts from Medicare premiums. Lower spending on disaster preparedness and higher than expected tax revenue from corporations and individual income tax receipts were also factors in the reduction. However, the deficit is unlikely to improve further in 2008 and 2009, primarily because health care costs are projected to continue to grow. In 2007, spending on social security, Medicare, and Medicaid accounted for 40 percent of total federal outlays.²⁰ In addition, revenue expectations are lower due to the softening of economic growth.²¹

Federal revenue growth will be restrained as a result of the recent economic stimulus package agreement that was signed into law by the President. The cost of the package is estimated to be as much as \$152 billion in fiscal year 2008, about one percent of GDP, and \$16 billion in the following year. The package includes tax rebates that are between \$300 and \$1,200 to 130 million Americans, and tax breaks for businesses.²²

Congress (December 26, 2007). Bill text not yet available, see H.R. 2764: Consolidated Appropriations Act, 2008, <http://www.govtrack.us/congress/bill.xpd?bill=h110-2764>; and Congressional Budget Office, *The Budget and Economic Outlook, Fiscal Year 2008 to 2018*, January 2008.

¹⁹ The federal budget deficit for fiscal year 2006 was \$247.7 billion, \$85 billion more than in fiscal year 2007. See Department of Treasury, Financial Management Service, *Final Monthly Treasury Statement of Receipts and Outlays of the United States Government*, October 11, 2007.

²⁰ White House Council of Economic Advisers, *Economic Report of the President*, Transmitted to Congress February 2008, together with the Annual Report of the Council of Economic Advisers (Government Printing Office, Washington: 2008).

²¹ The federal budget deficit for the first four months of fiscal year 2008 was \$90 billion, compared to \$42 billion for the same period in fiscal year 2007. See Congressional Budget Office, *Monthly Budget Review*, February 6, 2008.

²² The stimulus package is \$168 billion over two years, of which about \$110 billion will be in tax rebates, \$48 billion in business tax cuts, and \$10 billion in a mortgage adjustment plan that allows Fannie-Mae and Freddie Mac to lift the present \$417,000 limit on loans up to \$730,000. See the White House Office of the

State and local government spending grew 1.6 percent in 2006 and an estimated 2.3 percent in 2007, due to higher than expected revenues.²³ Growth is expected to slow to 1.9 percent in 2008 and 1.5 percent in 2009 as states restrain spending to adjust to lower revenue expectations. Outlays on investment in structures, equipment, software, and consumption accounted for the growth in state and local spending for 2007. The National Income and Product Account (NIPA) definition of government spending does not include transfer payments. However, spending on Medicaid, a major component of state spending, is anticipated to be even higher in the coming years since many policymakers have proposed plans to reduce the number of uninsured people in their state. In addition, the rising cost of healthcare implicitly leads to higher appropriations for Medicaid. Other key pressures on state spending include outlays for education, infrastructure, and state employee benefits and pension system.

In most states, revenue growth exceeded expectations for fiscal year 2007. Higher than anticipated revenue from corporate income, personal income, and sales taxes contributed to the strong revenue growth. In particular, income and sales tax receipts were 5.6 percent higher than in fiscal year 2006 collections.²⁴ Revenue projections for 2008 posit lower receipts from all the major revenue categories because the financial markets have been adversely affected by the recent credit squeeze and the sluggish growth of the economy.

Exports and Imports

The NYS Assembly Ways and Means Committee staff forecasts that, in constant dollars, exports will grow 6.9 percent in 2008 and 6.3 percent in 2009, after rising an estimated 7.9 percent in 2007. Imports are forecast to grow 1.9 percent in 2008 and 3.4 percent in 2009 (see Figure 22).

Net exports, defined as exports minus imports, declined (becoming more negative) every year from 1995 through 2006, adversely affecting the exchange rate, external debt,

Press Secretary, "President Bush Signs H.R. 5140, the Economic Stimulus Act of 2008," East Room, For Immediate Release: February 13, 2008.

²³ The National Income and Product Accounts (NIPA's) definition is used for state and local government spending.

²⁴ For fiscal year 2007, corporate income taxes were 9.0 percent higher than expected, personal income taxes were 7.2 percent higher than forecasted, and sales taxes were 3.0 percent higher than anticipated. For fiscal year 2008, states are expecting a 3.4 percent increase in sales tax and income tax revenues, and a decline of 1.4 percent in corporate tax revenue. See Association of State Budget Officers, "Fiscal Survey of States," fall 2007.

and GDP. Net exports started to improve in 2007 and are expected to continue to improve throughout 2008 and 2009. The trade deficit is forecast to decrease from \$560 billion in 2007 to \$500 billion in 2008 and further down to \$474 billion in 2009. This improvement in net exports is the result of strong foreign demand for U.S. goods and services as well as the declining U.S. dollar.

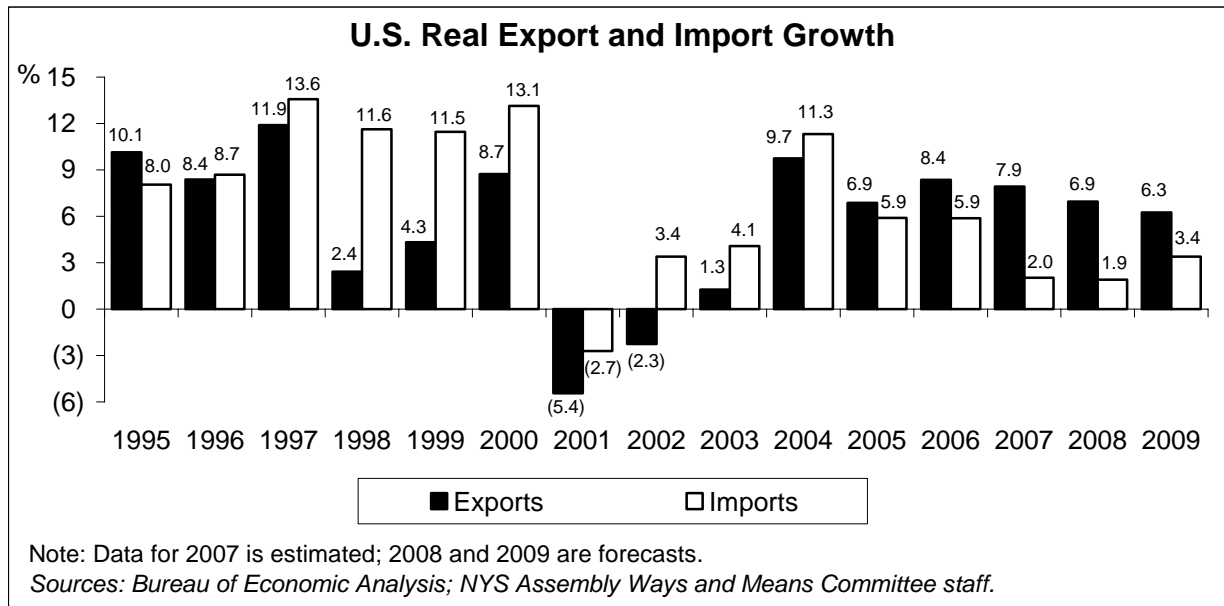


Figure 22

Although the Fed’s decision to cut interest rates may help to stabilize the financial market, it has had an adverse impact on the dollar. On November 7, 2007, the dollar fell to its lowest level since 1992 against a basket of major currencies due to problems in the subprime mortgage and housing markets, as well as the concern that lower U.S. rates would erode the value of dollar assets.²⁵ In the second half of 2007, net purchases of U.S. corporate bonds by foreigners dropped from over \$40 billion per month in 2006 to less than \$18 billion per month. Japan and China have recently reduced their holdings of U.S. Treasury securities.

The dollar is expected to decline further throughout the forecast period (see Figure 23). The decline has helped to boost exports and slow import growth as U.S. goods abroad have become cheaper. At the same time, the dollar’s decline could hurt the prices of

²⁵ Michael Mackenzie (New York), Krishna Guha, and Eoin Callan (Washington), “Inflation Fears Push Dollar To 15-Year Low,” *Financial Times (FT.com)*, September 20, 2007; <http://www.ft.com/cms/s/0/207663c2-67bc-11dc-8906-0000779fd2ac.html>.

United States assets. In addition, a declining dollar can cause increased inflation, partly because imported goods become more expensive. Higher import prices in dollars also reduce the pressure on domestic manufacturers to keep prices down.

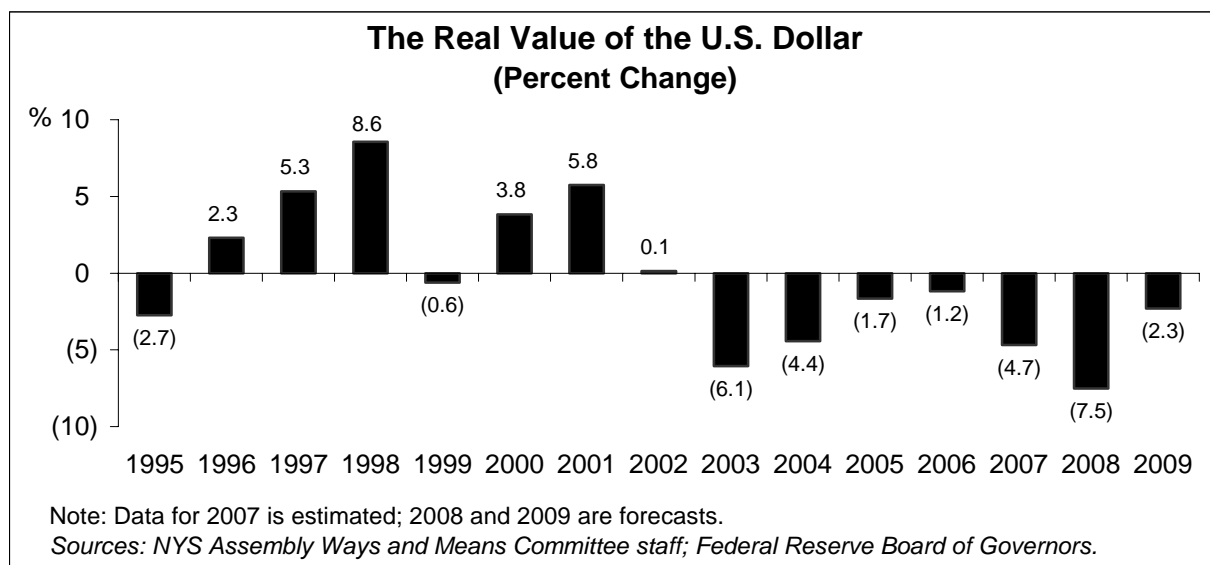


Figure 23

In the past, the decline of the dollar was driven mainly by the budget deficit and the growing current account deficit, which reached a record high of \$869.3 billion in the third quarter of 2006 (see Figure 24). The current account deficit is expected to improve in 2008 as net exports improve. The budget deficit improved significantly in fiscal year 2007 to the lowest level since 2002; but the budget deficit is expected to increase in fiscal year 2008. Both the current account deficit and the weakening U.S. economy are expected to cause the dollar to continue to decline in the next two years. The decline of the dollar has not only made U.S. goods more competitive, it has also attracted more foreign tourists to visit and shop in the United States.



Figure 24

The world economy should continue on a robust growth path in 2008, but at a slower pace than in 2007. With worldwide economic activity expanding for nearly all of our significant trading partners, the global economy will be a positive stimulus for the United States economy. According to a poll of forecasters taken by the *Economist*, developed countries are all expected to see positive growth in 2008, and most developed countries will experience slower growth in 2008 than in 2007. Europe is forecast to grow 1.8 percent in 2008, while Canada, the largest trade partner for the United States, is expected to grow 1.7 percent. Japan is expected to continue its positive growth after years of stagnant economic performance with 1.3 percent in 2008 and 1.8 percent in 2009.²⁶

Much of the developing world continues to experience rapid growth. China has been the focus of considerable attention with growth in the fourth quarter of 2007 at 11.2 percent. The Chinese government has been acting to slow growth to a more controlled pace. Some other Asian countries are also growing rapidly. Similarly, South American countries are also expanding rapidly, with 8.7 percent GDP growth in the third quarter of 2007 for Venezuela and Argentina.

²⁶ Economist Intelligence Unit, "Economic and Financial Indicators, Output, Prices and Jobs" *Economist.com*, February 14, 2008, http://www.economist.com/markets/indicators/displaystory.cfm?story_id=10697961.

Employment

Employment in 2007 held up relatively well. However, there are several factors that may contribute to weakened employment growth in 2008. Most importantly, as the housing market outlook remains poor, construction employment continues to degrade, with most industries within the construction sector experiencing weak or declining employment growth.

Due partially to a decline in the labor force participation rate, the unemployment rate was relatively steady in 2007. In December, the rate jumped to 5.0 percent, amid increases in jobless rates for most worker groups. The rate decreased only slightly in January to 4.9. Weekly jobless claims have so far remained below 400,000, the benchmark level that indicates a deteriorating labor market, although the four-week moving average has been trending upward.

Payroll employment will likely grow slower in 2008 and 2009, compared to 2006 and 2007. After growing an estimated 1.1 percent in 2007, employment growth is forecast to weaken to 0.3 percent in 2008 and 0.9 percent in 2009 (see Figure 25). The turmoil in the housing market will play a role in the softening of employment growth as it continues to affect the construction sector. In addition, a slowdown in output growth will also contribute to softer employment growth as it filters through to the labor market.

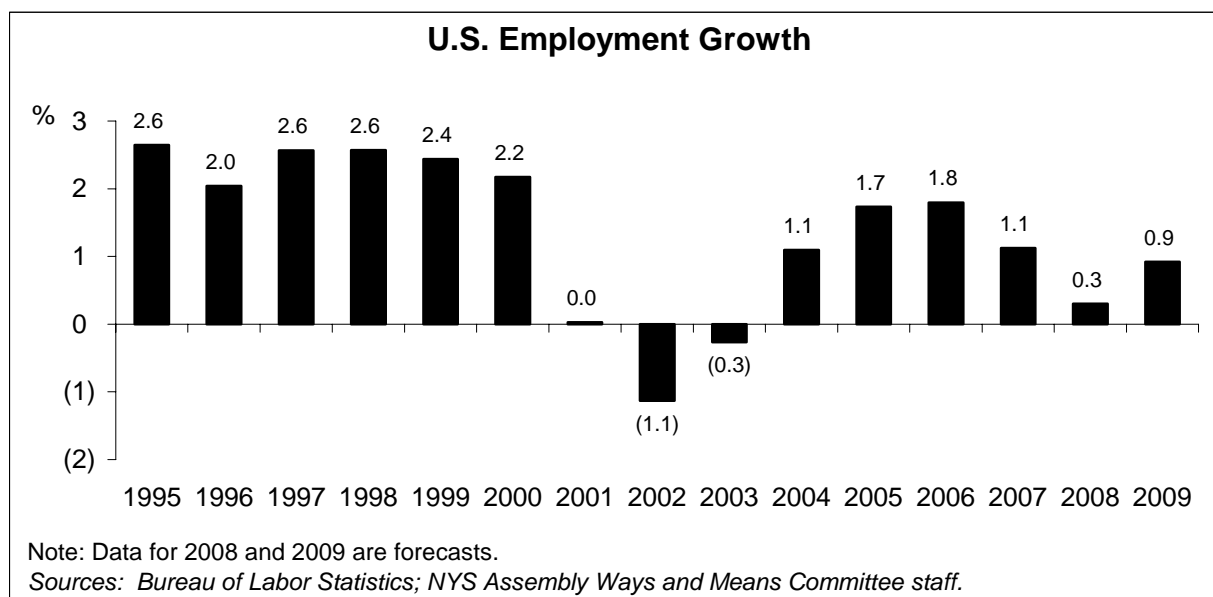


Figure 25

Many sectors in the national economy are likely to experience positive employment growth throughout the forecast period (see Table 2). Two notable exceptions are manufacturing and construction.

Manufacturing employment will continue to decline throughout the forecast period. Manufacturing employment has done poorly in recent decades due to pressures from factors such as off-shore outsourcing, productivity gains, and the overall shift to a more service-oriented economy. In addition, manufacturing employment continues to be impacted by cutbacks in the auto industry, as U.S. automakers lose market share to foreign auto companies.

Construction employment also will likely decline over the forecast period, as fallout from the housing sector continues to affect the demand for construction of new houses. Construction employment has already declined by 284,000 jobs since its peak in September 2006.²⁷

Service employment should continue to grow throughout the forecast period, with professional services, education, and health having the largest gains. However, some sectors, especially those catering to consumer goods, could be impacted by a slowdown in consumer spending. For example, retail trade employment is forecast to decline slightly in 2008.

Financial activities employment is forecast to decline 1.6 percent in 2008. Lay-offs have been announced by several major brokerage firms due to the credit crunch, and several industries within the sector have already been negatively affected by the problems in the mortgage markets. Employment declines in the credit intermediation industry (which includes mortgage lending and related activities) accelerated in the second half of 2007. Employment in the industry was 104,800 lower in January 2008 than in January 2007.

²⁷ This loss is calculated from the U.S. Bureau of Labor Statistics' seasonally adjusted employment data.

Table 2

U.S. Employment by Sector (Percent Change)				
	Actual 2006	Estimate 2007	Forecast 2008	Forecast 2009
Total	1.8	1.1	0.3	0.9
Professional Services	4.7	4.2	3.4	3.3
Education and Health	2.6	2.8	2.6	2.5
Leisure & Hospitality	2.3	2.8	1.3	1.4
Wholesale Trade	2.5	2.1	0.7	0.9
Government	0.8	1.0	0.5	0.6
Other Services ¹	2.1	0.8	0.1	0.9
Retail Trade	0.5	0.9	(0.2)	0.4
Mgmt. of Companies	2.9	1.9	(0.3)	0.9
Transp. & Utilities ²	2.1	1.4	(0.4)	1.0
Construction	5.2	4.9	(1.0)	(3.2)
Manufacturing ³	(0.1)	(1.6)	(1.3)	(0.7)
Information	(0.8)	(0.3)	(1.5)	(0.1)
Financial Activities ⁴	2.2	(0.2)	(1.6)	0.5
¹ Including Administrative, Support, and Waste Management Services. ² Transportation, Warehousing, and Utilities. ³ Including Mining and Logging. ⁴ Including Finance, Insurance, Real Estate, Rental, and Leasing. <i>Sources: Bureau of Labor Statistics, Current Employment Statistics (CES); NYS Assembly Ways and Means Committee staff.</i>				

Although the current employment picture has been relatively stable overall, further analysis identifies some weaknesses. Examination of subsector level data suggests that some industries may be starting to show signs of a prolonged downturn, especially the industries where employment patterns seem to closely reflect movements in the business cycle. In the retail trade sector, growth in the past several months has tapered off to relatively flat overall. Within this sector, a downturn is apparent in several different categories, including furniture stores, home and garden stores, and general merchandising stores. In the transportation and warehousing sector, the trucking industry shows signs of a downturn, which is usually a leading indicator of weakness in the economy.

Other employment indicators have recently been less positive. Some sectors are showing declines in the average weekly hours worked. The diffusion index of employment

change for total employment has also been falling.²⁸ In January 2008, it was 46.2 percent compared to 51.6 percent in January 2007. This was the lowest monthly value since September 2003.

Personal Income

Personal income grew an estimated 6.2 percent in 2007, after growing 6.6 percent year-over-year in 2006, due to higher hourly wage growth (see Figure 26). As growth in wages and salaries softens due to lower hourly wages and lower average hours worked, and as growth in other income components are expected to slow, overall personal income growth will fall to 3.8 percent in 2008. With an improvement in the overall economic outlook, higher wages and salaries expectations, and modest growth in the labor market, personal income is expected to rebound 4.9 percent in 2009.

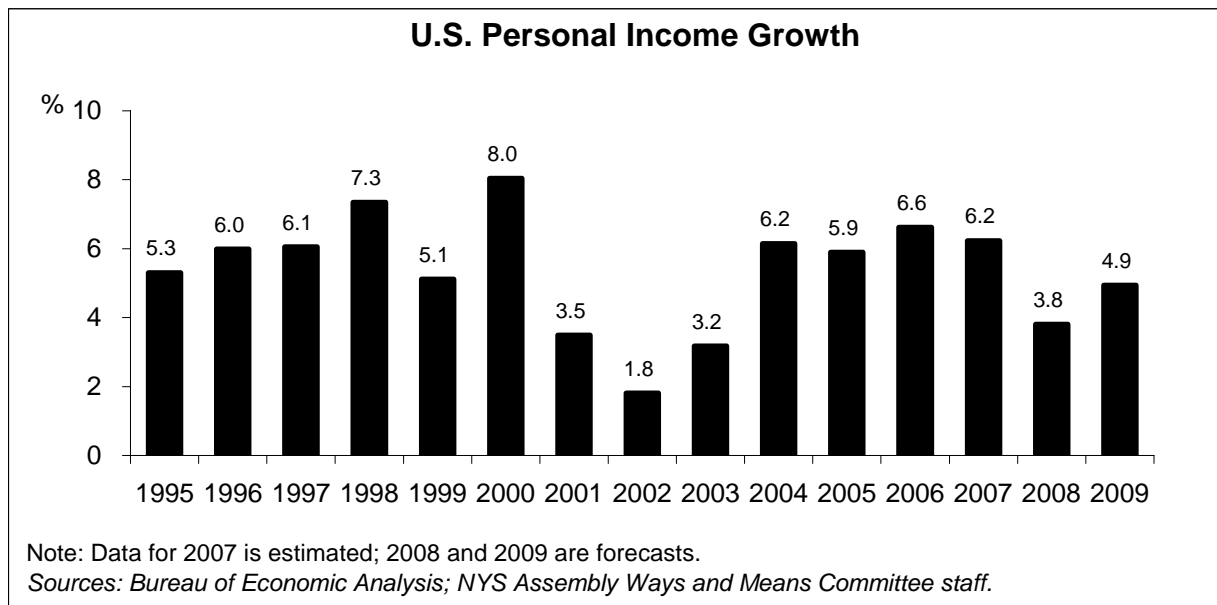


Figure 26

Wages and salaries, the largest component of total personal income, accounted for 55 percent of personal income in 2006. Wages and salaries compensation surged 6.2 percent year-over-year in 2006 after growing 5.1 percent during 2005. In 2007, wages and salaries income growth slowed to an estimated 5.8 percent, and will further decline in

²⁸ An index reading of 50 percent indicates an equal balance between industries with increasing and decreasing employment. The index is calculated by the U.S. Bureau of Labor Statistics as the percent of industries with employment increasing plus half of the industries where employment is unchanged.

2008 as growth in both employment and wage rates are expected to slow. In particular, bonuses and other variable compensation growth are likely to weaken. Wage growth is forecast to slow to 3.5 percent and 4.5 percent in 2008 and 2009, respectively.

Dividend income grew 16.3 percent in 2006 fueled by strong growth in corporate profits. However, as overall economic growth slowed, corporate profit growth fell off, leading to dividend income gains in 2007 that were lower than 2006. The decline in growth should continue into 2008, but should begin to improve in 2009. Dividend income grew an estimated 13.8 percent in 2007. It is expected to grow 5.7 percent in 2008 and 9.0 percent in 2009.

Personal interest income grew a strong 8.0 percent in 2006, attributed to rising interest rates. With interest rates likely to fall further, interest income grew an estimated 4.9 percent year-over-year in 2007, and is forecast to decline 1.2 percent in 2008, and increase to 3.3 percent in 2009.

Transfer income grew by 6.0 percent in 2006 and an estimated 7.4 percent in 2007. The increase in growth is mainly associated with the higher cost of medical care related to the growing number of people who receive Medicare benefits, and growth in old age, survivors, and disability insurance (OASI) benefits. With the impact of the prescription drug plan enacted in 2006 tapering off in 2008, personal transfer income growth will fall below the 2007 growth rate to 6.2 percent in 2008 and 5.6 percent in 2009.

Prices

Increases in consumer prices in 2007 were driven mainly by energy prices, although the pace slowed compared to 2006. Overall consumer price index (CPI) is expected to grow 2.9 percent in 2008, the same as in 2007, and slow to 2.3 percent in 2009 (see Figure 27).

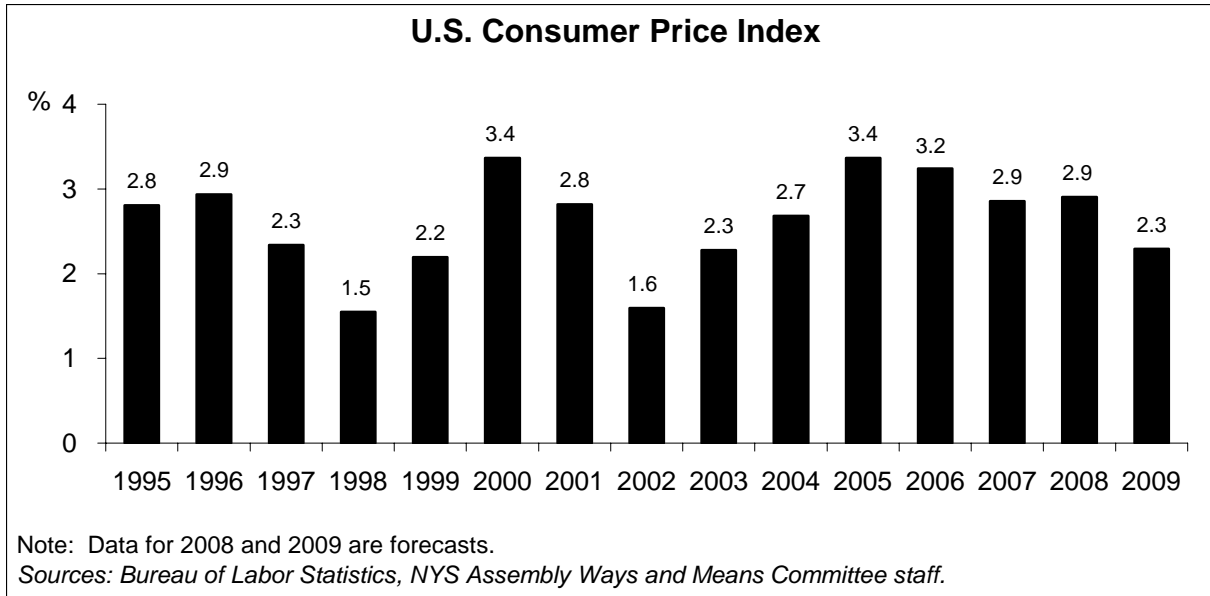


Figure 27

The core consumer price index (CPI), which excludes more volatile items such as food and energy, grew an average of 2.3 percent in 2007 (see Figure 28). Although the core CPI is generally the driver of Federal Reserve policy, there is concern over the volatile components faced by the average consumer on a daily basis. The core index excludes items such as gasoline and milk, which are household staples that are bought on a frequent basis. These items have experienced significant price increases in the past year. Dairy prices rose 7.4 percent in 2007 after staying almost flat in 2005 and 2006. While previous increases in food prices have often been due to temporary factors such as a poor harvest, recent increases are due to factors that may be more permanent.²⁹ Energy prices have remained volatile around a higher level than a few years ago. This sustained increase is borne by businesses and consumers.

²⁹ Grain prices in particular have risen dramatically over the past year as have other commodities. New sources of demand have emerged for grain including both ethanol production (spurred by government incentives) as well as a rising standard of living in growing economies that has created a middle class willing to spend more money on meat and milk, which require grain to produce. Although ethanol production has recently slowed (as a result of overproduction), factors influencing demand should continue to put upward pressure on grain prices over the long-term. See Lauren Etter and Ilan Brat, "Ethanol Boom Runs Out of Gas," *Wall Street Journal*, October 1, 2007, A2; and Scott Kilman, "Historic Surge in Grains Prices," *WSJ Online*, September 28, 2007.

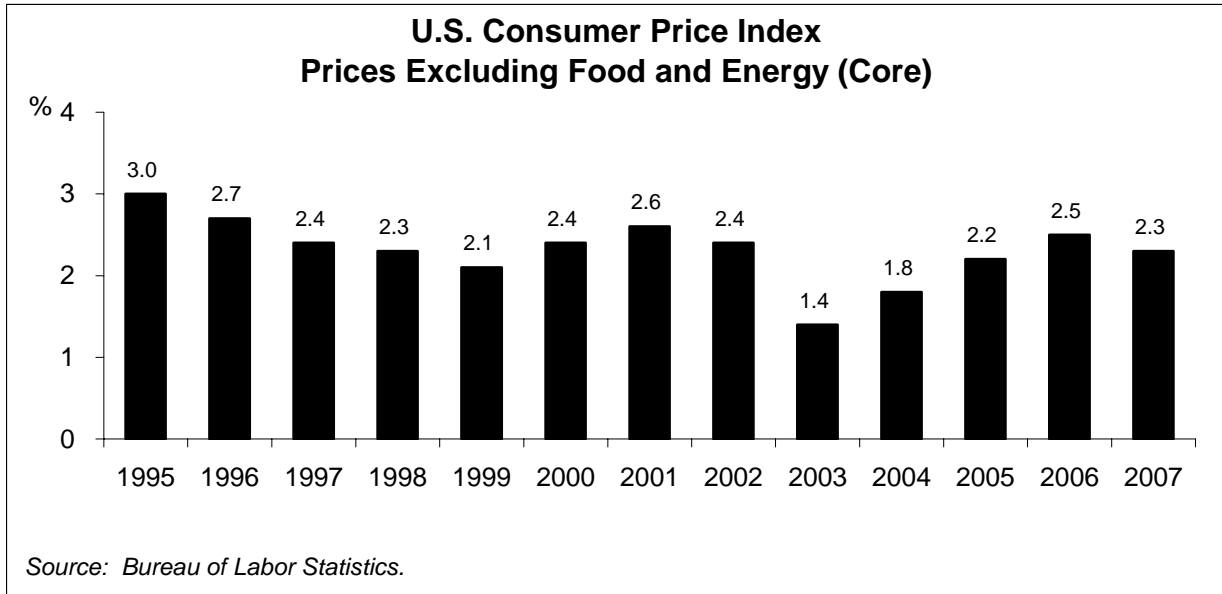


Figure 28

Oil prices will remain high throughout the forecast period. The refiners acquisition cost of oil averaged an estimated \$67.09 per barrel in 2007, and is expected to average \$77.50 in 2008, and \$75.00 in 2009.³⁰ Although this forecast incorporates a continued significantly higher level for oil prices, the extent to which these higher energy costs will be passed through to consumers may be tempered by slowing economic growth and a reluctance or limited ability by business owners to raise prices.

Both energy prices and the declining dollar can be expected to put upward pressure on prices. However, it is likely that downward pressure from slowing growth, weaker employment, and faster growth in productivity will prevail, keeping inflation somewhat low. As employment growth is forecast to slow and unemployment is expected to rise, employers may feel less pressure to raise wages to attract labor. In addition, unit labor costs are forecast to grow slower in 2008 than in 2007. Overall CPI inflation was 4.0 percent in the fourth quarter of 2007 compared to the same quarter of 2006 and is expected to moderate to 2.3 percent in the fourth quarter of 2008 compared to the same quarter of 2007.

³⁰ The refiner acquisition cost is a volume weighted average price of imported oils. It is generally lower and less volatile than the West Texas Intermediate (WTI) price commonly reported in the media. The current news stories referring to crude oil prices over \$90 per barrel are referring to WTI daily spot prices or futures prices of other various oil price measures.

Energy Prices

Energy prices, in particular oil prices, continue to represent a critical risk to the overall health of the economy. Increases in energy prices, which have been quite large in recent years, present a direct risk to consumers by cutting into disposable income and to producers by raising input prices (see Table 3). The volatility in energy prices is increased by the uncertainty in the future conditions in energy markets. Some of the factors that contribute to this uncertainty are weather-related phenomena such as hurricanes, geopolitical instability, and speculation.

Table 3

U.S. Energy Prices					
Annual Average					
		2004	2005	2006	2007
Crude Oil - RAC	Percent Change	29.6	36.1	20.8	13.7
	<i>Level</i>	35.91	48.86	59.02	67.09
Crude Oil - WTI	Percent Change	33.6	36.4	16.6	9.5
	<i>Level</i>	41.51	56.64	66.05	72.34
Crude Oil - Brent	Percent Change	32.6	42.6	19.4	11.2
	<i>Level</i>	38.26	54.57	65.16	72.44
Natural Gas	Percent Change	7.3	49.3	(23.4)	3.4
	<i>Level</i>	5.90	8.81	6.75	6.98
Heating Oil	Percent Change	31.8	45.5	11.1	12.4
	<i>Level</i>	1.12	1.63	1.81	2.03
Gasoline	Percent Change	18.6	22.7	13.2	8.9
	<i>Level</i>	1.85	2.27	2.57	2.80

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. The RAC daily spot price is generally less than the West Texas Intermediate (WTI) spot price, which is commonly reported in the media. 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: Energy Information Administration.

Although the cost of most forms of energy represent a concern for the economy, crude oil prices are the most widely followed. In 2007, crude oil prices have not only been high (nominally), but also volatile. In 2007, the U.S. refiner acquisition cost of crude oil varied on a monthly basis, from a low of \$49.51 in January to a monthly high of \$85.52 in November. Several oil price measures hit all-time nominal highs in 2007, reaching \$100 in some cases. Oil prices were just shy of the inflation-adjusted record set in 1980. Record

high prices were the result of several factors, including tight supplies, high demand, speculation, the low value of the U.S. dollar, as well as intense geopolitical uncertainties.³¹

Although crude oil prices have always been volatile, the magnitude of this instability has been larger in the past few years; speculation has likely played a role (see Figure 29). The extent to which speculation has contributed to high prices is debated, with most analyses suggesting \$7 to \$20 of current oil prices is due to speculation. This creates uncertainty, as speculation could end at any time, causing prices to drop rapidly.³²

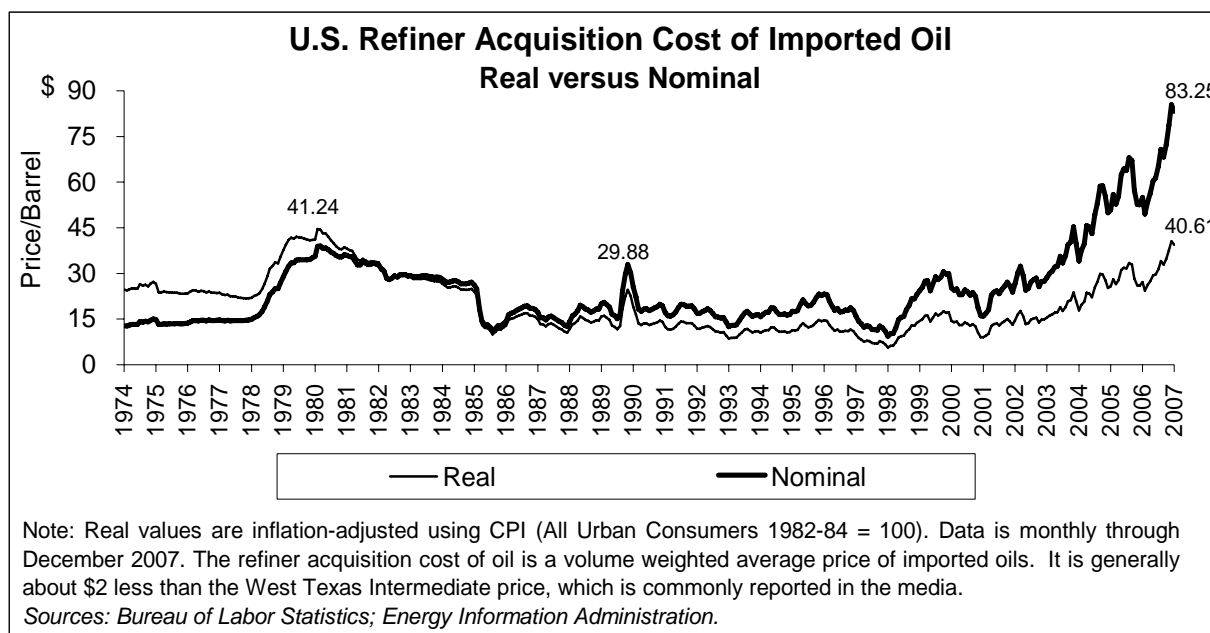


Figure 29

The 2007 hurricane season was mild; however, other events around the world have caused spikes in crude oil prices. These events include:

- ◆ Continued political unrest in Nigeria. Oil unions in the world's eighth largest oil exporter have participated in various strikes that have threatened to halt

³¹ Javier Blas, "Record Oil Price Leaves Bears Running for Cover," *Financial Times*, October 20, 2007, p. 12.

³² United States Senate, Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, *The Role of Market Speculation in Rising Oil and Gas Prices: A Need to Put the Cop Back on the Beat*, Staff Report, June 27, 2006.

production in the country. Since 2006, unrest, sabotage, and militant action have cut Nigerian production by one-fifth.³³

- ◆ Officially reported oil production in Iraq remained at a low level of 2.3 million barrels a day in December 2007, despite pre-war forecasts in 2003 that expected Iraq's output would reach six million barrels per day by 2010.³⁴
- ◆ Actions by OPEC may also have a direct impact on the price of crude oil, but this depends upon other market fundamentals. OPEC has claimed that current high prices are not supported by market fundamentals, but by speculators betting on the dollar's weakness. Although OPEC boosted production in 2007, prices remained high. OPEC left production unchanged at the February 1, 2008, meeting. With the possibility of a recession in the United States, OPEC will likely consider cutting output.³⁵
- ◆ High demand combined with low surplus capacity is likely to continue and will likely keep upward pressure on oil prices. Although U.S. economic growth is expected to slow, overall world economic growth is anticipated to continue to be strong, so any decrease in oil demand in the U.S. will be outweighed by an increase from other countries (particularly China, which is expected to demand 8.12 million barrels per day in 2008, compared to demand of 7.68 million barrels per day in 2007).³⁶

Gasoline prices have also been high throughout 2007, creating a direct impact on disposable income. In 2006, the U.S. average for all grades of gasoline was \$2.62 per gallon. For 2007, it averaged \$2.80 per gallon. Refinery problems, tight supplies, and high demand led to record gasoline prices in mid-2007.

³³ Maryelle Demongeot, Reuters: Singapore, "Oil Steady After Jump on Nigeria and Iran," *Reuters.com*, January 14, 2008, <http://in.reuters.com/articlePrint?articleID=INIndia-31400720080115>.

³⁴ Ross Colvin, Reuters: Baghdad, "Power Cuts Plague Iraq, Hurt Oil Production," January 18, 2007, <http://www.reuters.com/articlePrint?articleId=USCOL838278>.

³⁵ Mark Shenk, "Crude Oil Rises to a Record \$100.10 on OPEC Production Outlook," *Bloomberg.com*, February 19, 2008, <http://www.bloomberg.com/apps/news?pid=20601087&sid=aHfKgCEmwne8&refer=home>.

³⁶ Energy Information Administration, www.eia.doe.gov.

Corporate Profits

Year 2006 marked the fifth consecutive year of double-digit growth in corporate profits, which include capital consumption adjustments and inventory valuation adjustments. Robust growth in productivity, among other factors, is believed to have accounted for much of the strong improvement in corporate profits. In the past five years, nonfinancial corporations have posted stronger gains in profits than financial corporations (see Figure 30). As output growth slowed, however, corporate profit growth fell to an estimated 2.6 percent during 2007. With the further slowing of the economy and rising energy prices, corporate profits are forecast to decline 2.7 percent in 2008 and then grow by 7.6 percent in 2009 (see Figure 31).

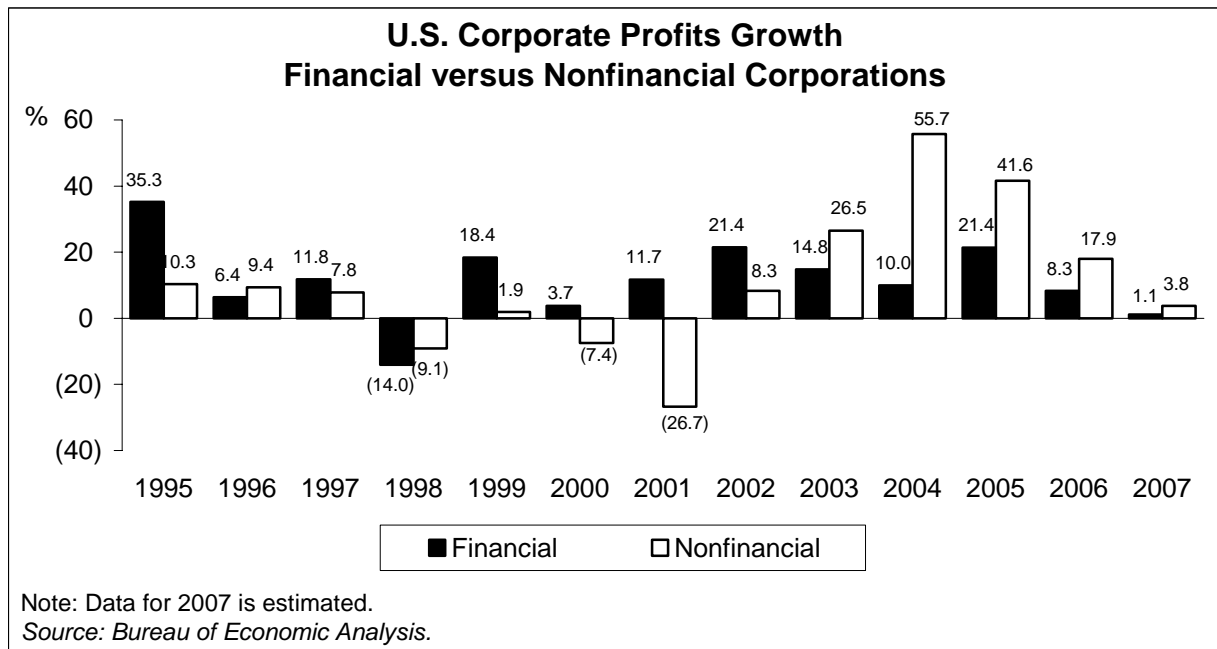


Figure 30

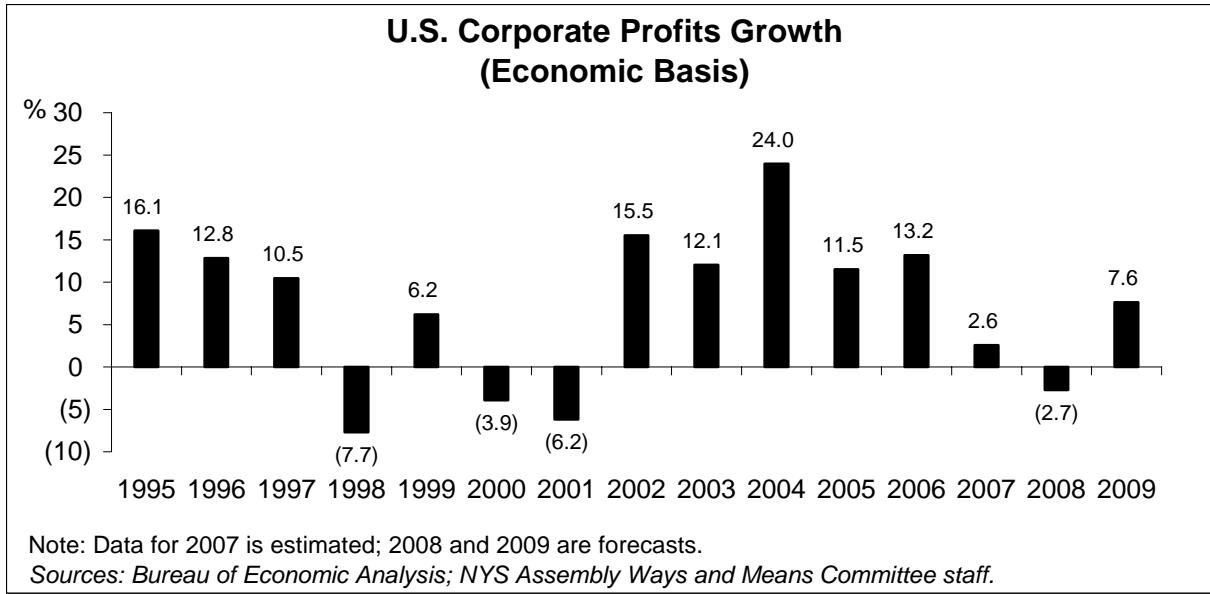


Figure 31

The share of corporate profits in national income rose to 13.6 percent in the second quarter of 2006 from the nine-year low of 8.0 percent in the third quarter of 2001, while the share of labor income (the sum of wages and salaries and employee benefits) fell to 63.7 percent from the 66.8 percent in the same quarter in 2001 (see Figure 32). Labor income share in national income will likely gain in the near future as corporate profit growth is expected to slow during the forecast period.

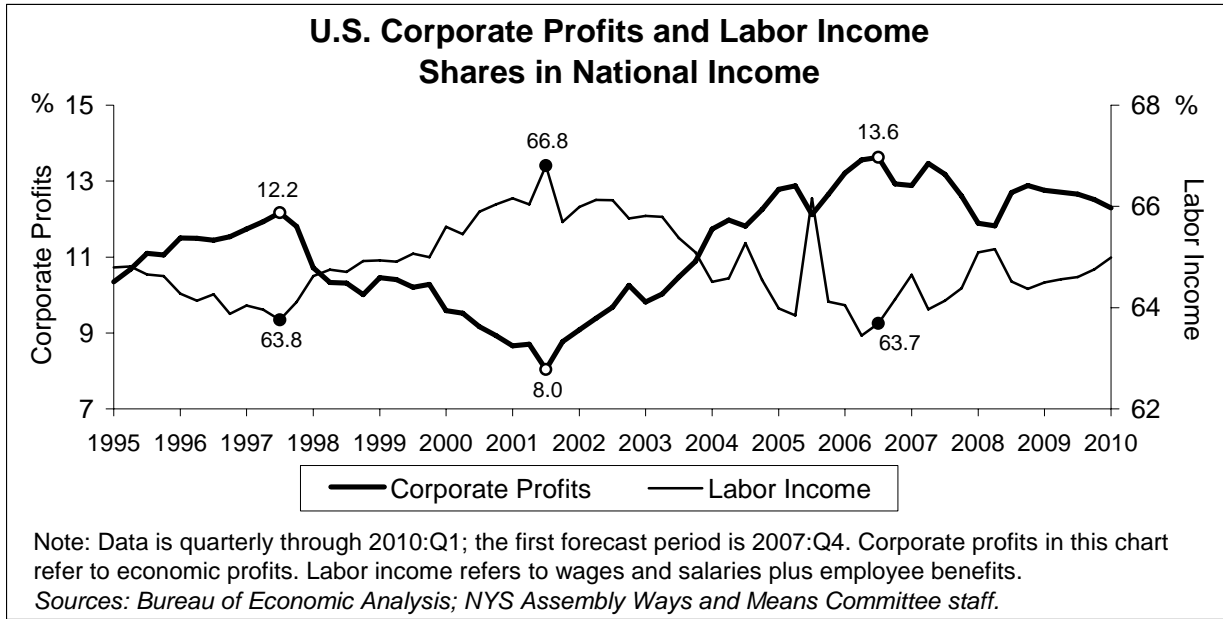


Figure 32

Interest Rates

With economic growth slowing and core inflation moderating, and the turmoil in housing and credit markets spreading to the broader economy, the Fed has cut the federal fund rate by 225 basis points since September 2007 to the current level of 3.0 percent. These moves marked the first easing since June 2003. The federal funds rate, which averaged 5.0 percent in 2007, is expected to average 2.4 percent in 2008 and 3.0 percent in 2009. The three-month Treasury bill rate averaged 4.4 percent in 2007, and is forecast to average 1.6 percent in 2008 and 2.7 percent in 2009. With the economy expected to weaken further, the bond market will become more attractive for investors who seek safer investments. Foreign investors have also become large holders of U.S. Treasury securities, looking for the safety and liquidity provided by those bonds.³⁷ The 10-year Treasury note yield averaged 4.6 percent in 2007, and is expected to average 3.6 percent in 2008 and 4.2 percent in 2009 (see Figure 33).

³⁷ Foreign holdings of U.S. Treasury Securities have been increasing since 2002. However, Japan and China, the two largest holders of U.S. Treasury Securities, have recently reduced their holdings.

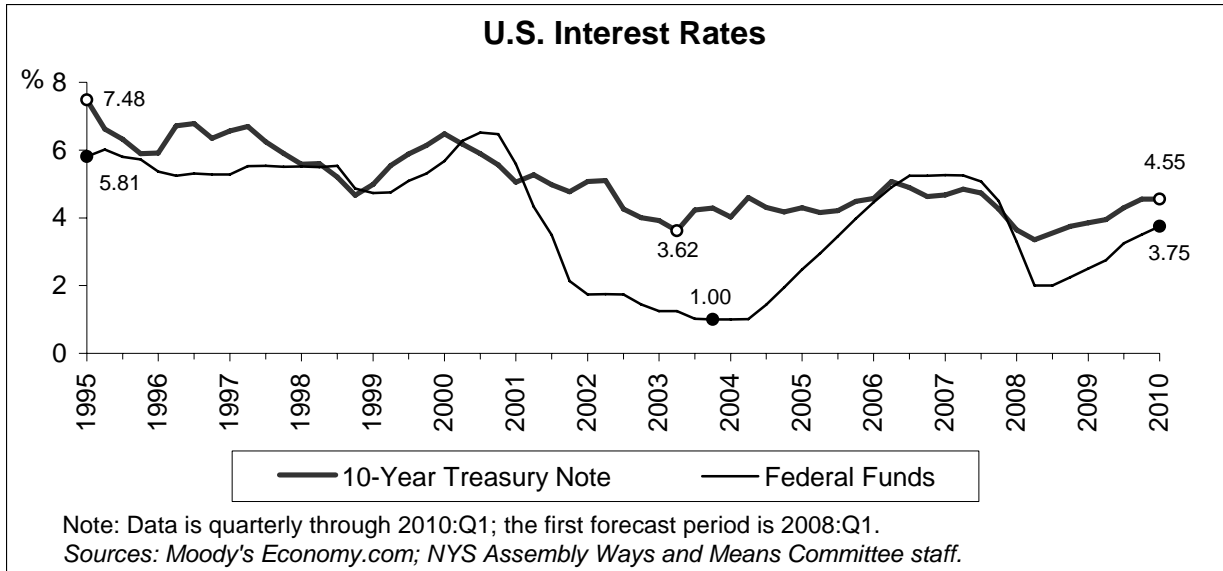


Figure 33

It is possible that the Fed will raise rates if inflationary pressure mounts. In deciding whether to increase the federal funds rate in the future, the Federal Reserve must weigh inflationary pressure (which is reduced by increasing rates) against the risk of a recession or stagnant growth (which is reduced by lowering rates). With the economy stalling, the employment outlook worsening, and inflationary pressure moderating, further rate cuts in 2008 are likely.³⁸

Stock Market

The stock market has been rising since 2003 due to healthy corporate profits and a positive economic outlook. Using annual average values, the Standard & Poor's 500 (S&P 500) Stock Price Index increased 8.6 percent year-over-year in 2006 and a strong 12.8 percent in 2007. The S&P 500 index averaged 1,478.3 in 2007. Due to the turmoil in the housing and credit markets and slower corporate profits growth, S&P 500 growth is expected to decline by 5.2 percent in 2008. With overall economic growth expected to

³⁸ Federal Reserve Chairman Ben Bernanke raised his concern in a speech on January 10 that the outlook for economic activity in 2008 had worsened and the downside risk to growth had become more pronounced. He indicated that growth had become a major concern and that the Fed was ready to take necessary actions to support growth. Since the Bernanke speech, the Fed has cut rates by 125 basis points. The Fed will likely cut rates further as the economy is expected to continue to weaken. See Ben S. Bernanke, "Financial Markets, the Economic Outlook, and Monetary Policy," (at the Women in Housing and Finance and Exchequer Club Joint Luncheon, Washington, D.C.) January 10, 2008, <http://www.federalreserve.gov/newsevents/speech/bernanke20080110a.htm>.

return to a near-trend rate and housing and credit markets expected to stabilize in 2009, the stock market will likely improve in 2009. The S&P 500 Stock Price Index is forecast to gain 6.2 percent in 2009.

After rising rapidly throughout most of the 1990s and into 2000, stock prices, as measured by the S&P 500 Index, declined sharply from late 2000 until early 2003. The decline took away about half of the stock price gains experienced since 1990. Since the first quarter of 2003, stock prices have generally been rising. In the second quarter of 2007, the S&P 500 surpassed its former quarterly average peak of 1,476 reached in the third quarter of 2000 (see Figure 34).

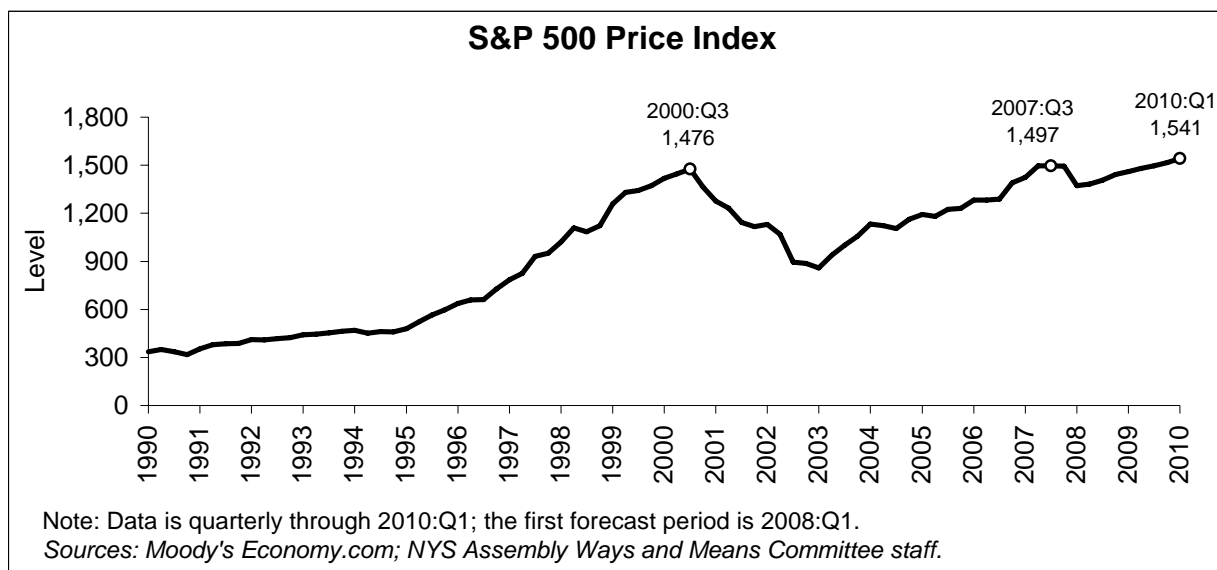


Figure 34

On May 30, 2007, the S&P 500 closed at a new record high of 1,530.23, surpassing the previous record closing high of 1,527.46 set more than seven years ago on March 24, 2000. It then closed at another record high, 1,565.15 on October 9, 2007. Similarly, the Dow Jones Industrial Average (DJIA) closed at a record high of 14,164.53 on October 9, 2007. Since then, both indices have dropped by more than 10 percent due largely to the turmoil in the housing and credit markets, as well as the much lower than expected earnings reported by large firms.

The National Association of Securities Dealers Automated Quotations (NASDAQ) and DJIA have shown trends similar to the S&P 500. Based on year-end prices, all three

markets peaked in 1999 and bottomed out in 2002.³⁹ Though the pattern was similar, the NASDAQ had a much more pronounced peak and trough, consistent with the higher volatility of this market, which is heavily weighted towards growth and technology stocks. The DJIA has already surpassed its previous peak, while the NASDAQ remains at less than 70 percent of its peak value (see Figure 35).

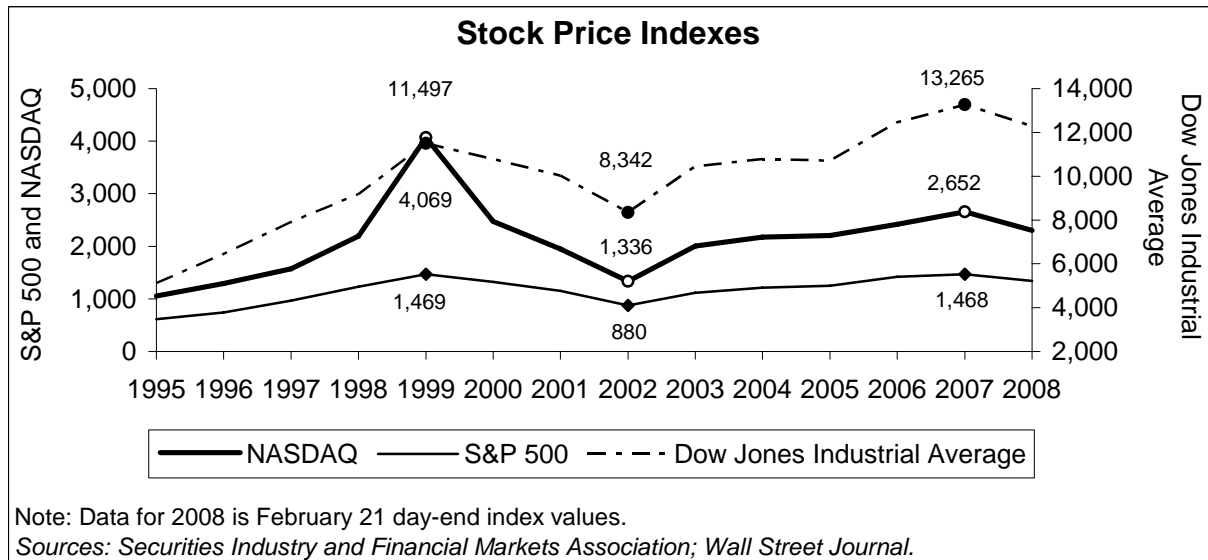


Figure 35

Credit Market Issues

As the housing market deteriorated in early 2007, troubles spread to the credit markets. The problems intensified as the housing sector worsened and many subprime lenders went bankrupt. In addition, many financial companies announced losses to cover bad debts for securities backed by subprime loans. As the problems became more widespread and were more broadly reported, investors became skittish, leading to several days when the stock market indices fell significantly. Write-downs by financial companies have continued into 2008.

These problems are not exclusive to the United States, but have had a global impact. Credit has become tighter in many countries. Credit costs have risen quite sharply in many of the countries perceived to be most vulnerable to external shocks. This may

³⁹ The 2000 peak in the S&P 500 discussed previously was based on quarterly data. However, since stock prices started declining in the first half of 2000, the annual average price was higher in 1999 than in 2000.

cause some countries that were growing extremely fast as a result of unprecedented access to cheap credit to grow somewhat slower.⁴⁰

Although the full impact of the detrimental effects of less liquidity and devaluation of mortgage-backed assets is still unquantifiable, so far firms such as Citigroup, Merrill Lynch, and others have already registered losses and write-downs totaling billions of dollars. There are more write-downs expected. Goldman Sachs has estimated that an additional \$20 billion of losses may be seen.⁴¹ Both Goldman Sachs and Deutsche Bank have been cited as estimating that losses for financial firms could be as much as \$400 billion worldwide. The cost of insuring corporate debt has also skyrocketed.

Liquidity has also been limited as lenders tighten standards trying to reduce future liabilities. The Federal Reserve Senior Loan Officers Survey in January 2008 showed that banks had continued to tighten standards for commercial and non-commercial loans, making it more difficult for consumers and corporations to obtain debt. Data from the Federal Reserve indicates that outstanding commercial paper has fallen sharply since August 2007. The full extent to which this crunch will impact corporate balance sheets and earnings will not be immediately apparent.

United States Forecast Comparison

The NYS Assembly Ways and Means Committee staff forecast for overall national economic growth in 2008 is 1.5 percent (see Table 4). The staff forecast is the same as Moody's Economy.com, and 0.1 percentage point higher than Global Insight. The staff forecast is lower than the Blue Chip Consensus by 0.2 percentage point, Macroeconomic Advisers by 1.0 percentage point, and the Division of the Budget by 0.4 percentage point.

⁴⁰ Stefan Wagstyl, "Credit Crunch Spreads Eastward," *Financial Times*, January 29, 2008, p. 2.

⁴¹ Jenny Anderson, "Wall St. Banks Confront a String of Write-Downs," *New York Times*, nytimes.com, February 19, 2008, http://www.nytimes.com/2008/02/19/business/19banks.html?_r=1&thpawanted=print&oref=slogin.

Table 4

U.S. Real GDP Forecast Comparison (Percent Change)				
	Actual 2006	Estimate 2007	Forecast 2008	Forecast 2009
Ways and Means	2.9	2.2	1.5	2.5
Blue Chip Consensus	2.9	2.2	1.7	2.6
Division of the Budget	2.9	2.2	1.9	2.5
Moody's Economy.com	2.9	2.2	1.5	3.4
Macroeconomic Advisers	2.9	2.2	2.5	3.1
Global Insight	2.9	2.2	1.4	2.2

Sources: NYS Assembly Ways and Means Committee staff; Blue Chip, February 2008; New York State Division of the Budget, 2008-09 Executive Budget Supplemented for 21-Day Amendments, February 12, 2008; Moody's Economy.com, February 2008; Global Insight, February 2008; Macroeconomic Advisers, January 2008.

The Assembly Ways and Means Committee staff forecast for overall national economic growth in 2009 is 2.5 percent. The staff forecast is the same as the Division of the Budget, and 0.3 percentage point higher than Global Insight. The staff forecast is lower than the Blue Chip Consensus by 0.1 percentage point, Moody's Economy.com by 0.9 percentage point, and Macroeconomic Advisers by 0.6 percentage point.

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NEW YORK STATE FORECAST

Great uncertainty exists in the New York State economic outlook for the forecast period. There are many risks. Central among these risks is the performance of Wall Street in the coming year, particularly pertaining to bonus payments.

Allowing for these risks, the New York State economy is expected to slow overall in 2008 compared to 2007 (see Table 5). Employment and wage growth are forecast to slow, and personal income growth will also slow. The New York area CPI will grow 2.9 percent in 2008 and 2.4 percent in 2009.⁴²

Table 5

New York State Economic Outlook				
(Percent Change)				
	Actual	Estimate	Forecast	Forecast
	2006	2007	2008	2009
Employment	1.0	1.2	0.3	0.7
Personal Income	7.5	7.6	3.7	4.8
Total Wages	7.8	8.4	2.8	3.8
Base Wages	5.6	4.9	3.7	4.1
Variable Compensation	30.3	36.8	(2.7)	1.7
New York Area CPI	3.8	2.8	2.9	2.4
<p>Note: 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.</p> <p>Sources: Bureau of Economic Analysis; NYS Department of Labor, QCEW; Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.</p>				

The New York State coincident economic index constructed by the NYS Assembly Ways and Means Committee staff indicates that the State economy is still expanding (see Figure 36). However, in many of the months since mid-2006, the State leading index has declined compared to the previous month, indicating an increased risk of recession. The coincident index is currently still trending slightly upward.

⁴² The 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.

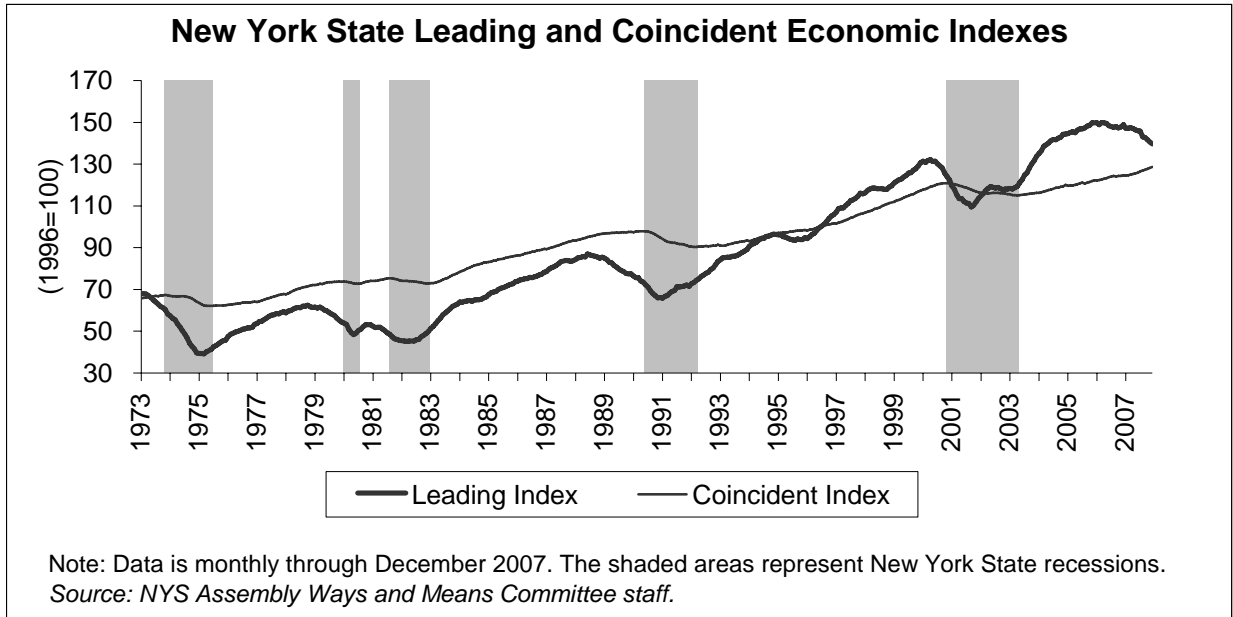


Figure 36

Employment

In 2007, New York State accounted for approximately 6.3 percent of total United States payroll employment. The State ranks third in the size of employment, behind California and Texas. However, New York lags these states in terms of employment growth. New York's employment growth in 2007 was ranked 35th (see Table 6).⁴³

⁴³ These growth rates and rankings are based on Current Employment Statistics (CES) data, which is more timely than the Quarterly Census of Employment and Wages (QCEW) data but subject to significant revisions. Unless otherwise noted, QCEW data is the basis of statements regarding New York State employment in this section.

Table 6

2007 Employment Growth and Share of National Employment by State				
Geography	Employment Growth		Share of Total U.S. Employment	
	Growth	Rank	Share	Rank
United States	1.1	-	100.0	-
Top Ten				
Utah	4.4	1	0.9	33
Wyoming	3.6	2	0.2	51
Louisiana	3.1	3	1.4	25
Arizona	2.9	4	2.0	20
Montana	2.8	5	0.3	45
Idaho	2.5	6	0.5	40
Texas	2.3	7	7.5	2
South Dakota	2.2	8	0.3	47
Kansas	2.2	9	1.0	31
Washington	2.1	10	2.1	15
New York	1.0	35	6.3	3
Bottom Ten				
Minnesota	0.6	42	2.0	19
Kentucky	0.6	43	1.3	26
New Jersey	0.6	44	3.0	11
Maine	0.5	45	0.4	43
West Virginia	0.5	46	0.6	38
Wisconsin	0.5	47	0.2	50
Vermont	0.4	48	2.1	16
Indiana	0.3	49	2.2	14
Ohio	(0.2)	50	3.9	7
Michigan	(1.4)	51	3.1	8

Note: The growth rates and rankings are based on Current Employment Statistics (CES) employment data. This data may differ from QCEW data usually used by the NYS Assembly Ways and Means Committee. The CES data is more timely but subject to possible significant revision. Rankings are based on two decimal places.
Source: Bureau of Labor Statistics.

New York State employment grew at an average rate of 0.8 percent per year during 1996-2006, slower than the national average growth rate of 1.3 percent per year. The regions with the fastest growth in employment during this period were the Mid-Hudson and Long Island regions, which grew at 1.3 percent and 1.2 percent per year, respectively. Employment growth in all upstate regions, except for the Capital region, was slower than the State employment growth (see Figure 37).

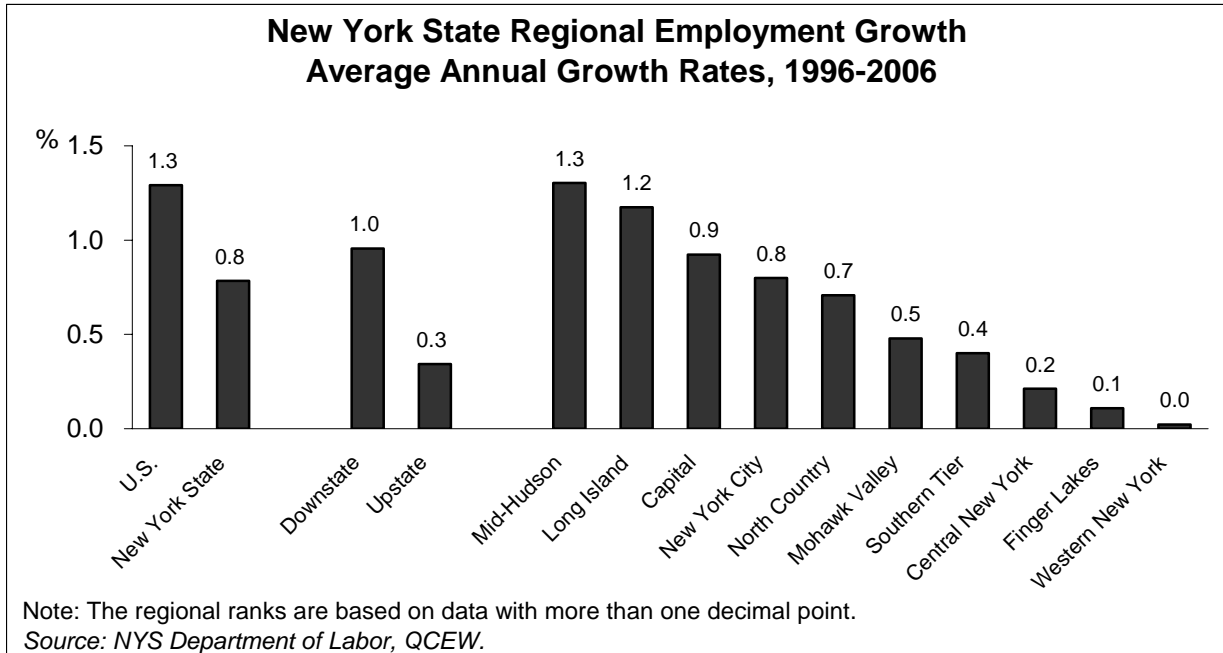


Figure 37

In 2007, New York State employment grew an estimated 1.2 percent, slightly higher than 2006. The rate of State employment growth is expected to be similar to that of the nation in 2008 at 0.3 percent. Manufacturing job losses are expected to continue in 2008 and 2009. The decline of employment growth in financial activities, as well as the slow rate of growth in the construction, professional services, and leisure and hospitality sectors, will also affect overall employment growth in 2008 (see Table 7). The largest employment gains are expected to be in education and health. This sector will likely generate more than half of the 29,000 employment gains in 2008. The sectoral composition of job gains in 2008 is expected to be similar to that of 2007. The largest employment gains (in levels) will be in education and health, professional services, and leisure and hospitality.

Table 7

New York State Employment by Sector (Percent Change)				
	Actual 2006	Estimate 2007	Forecast 2008	Forecast 2009
Total Employment	1.0	1.2	0.3	0.7
Professional Services	3.8	4.0	1.9	2.3
Education & Health	1.5	2.2	1.5	1.8
Leisure & Hospitality	1.3	2.9	1.2	1.2
Mgmt. of Companies	3.8	0.7	0.9	1.3
Construction	3.8	3.4	0.7	1.2
Transp. & Utilities ¹	1.9	0.8	0.5	0.7
Wholesale Trade	0.0	0.9	0.5	0.6
Retail Trade	0.3	1.3	0.4	0.5
Government	0.2	0.8	0.4	0.4
Other Services ²	0.0	1.1	(0.2)	0.3
Financial Activities ³	1.7	0.6	(0.9)	0.8
Information	(0.4)	(2.5)	(1.3)	(0.4)
Manufacturing ⁴	(2.3)	(2.3)	(2.6)	(2.4)
¹ Transportation, Warehousing, and Utilities.				
² Including Administrative, Support, and Waste Management Services.				
³ Financial Activities including Finance, Insurance, Real Estate, Rental, and Leasing.				
⁴ Including Mining.				
<i>Sources: NYS Department of Labor, QCEW; NYS Assembly Ways and Means Committee staff.</i>				

Table 8 shows the sectoral rates of year-over-year employment growth by region for the most recent quarter for which data is available. Employment increased in both upstate and downstate regions, though the rates of expansion of the sectors showed regional variations. For example, from the second quarter of 2006 to the second quarter of 2007, construction employment growth in New York City was 8.9 percent, whereas the upstate rate of growth was 0.8 percent. The high rate of employment growth in the construction sector in New York City is a result of both non-residential construction as well as public construction spending on mass transit, schools, roads, and bridges projects. Construction employment in New York City in 2007 surpassed its 2001 peak.⁴⁴ Employment was lost in the manufacturing sector for the same period in all regions. However, manufacturing

⁴⁴ New York State Department of Labor, Current Employment Statistics.

represents a larger share of total upstate employment than that of total downstate employment.⁴⁵

Table 8

New York State Employment Change 2006:Q2 to 2007:Q2 (Percent Change)				
	New York State	Downstate		Upstate New York
		New York City	NYC Suburbs	
Total	1.4	2.3	1.6	0.4
Construction	4.6	8.9	4.4	0.8
Professional Services	4.0	4.8	2.1	3.7
Leisure and Hospitality	3.6	5.3	3.4	1.8
Education and Health	2.3	1.9	4.4	1.4
Other Services ¹	2.1	3.0	1.5	1.0
Retail Trade	1.8	3.9	1.9	0.2
Financial Activities ²	1.3	2.7	0.3	(1.5)
Wholesale Trade	1.1	1.4	1.3	0.9
Mgmt. of Companies	1.0	1.7	(0.6)	1.3
Transportation and Utilities ³	1.0	2.7	0.6	(0.2)
Government	0.7	0.5	1.1	0.8
Information	(1.8)	1.1	(3.3)	(5.7)
Manufacturing ⁴	(2.3)	(4.7)	(2.0)	(1.7)

Note: Downstate employment grew 2.0 percent during this period. Bolded numbers are largest in each sector.

¹ Includes Administrative, Support, and Waste Management Services.

² Financial Activities including Finance, Insurance, Real Estate, Rental, and Leasing.

³ Transportation, Warehousing, and Utilities.

⁴ Manufacturing and Mining.

Source: NYS Department of Labor, QCEW.

The largest regional job gains were in New York City, but there were also notable job gains in the New York City suburbs, while employment in the upstate region stayed flat. In all regions, the largest employment level increase was in the education and health sector. While most other sectors lost jobs during the 2001 economic downturn, the rate of job growth in this sector remained relatively stable. Employment in the education and health sector has been steadily increasing since the 1980s. Health employment rose an average of 2.5 percent annually between 1980 and 2000 and continued to increase in

⁴⁵ In 2006, manufacturing employment made up 4.5 percent of downstate employment and 12.1 percent of upstate employment. Manufacturing employment was 3.0 percent of total New York City employment.

recent years, while at the same time total employment in the rest of the economy remained relatively stable.

In contrast, manufacturing employment in both New York and the nation has experienced substantial job losses over the past decade. However, manufacturing employment in the State declined much faster than that of the nation. In New York State, manufacturing employment declined by almost 50 percent between 1990 and 2006. From 1995 to 2006, manufacturing employment in the State fell by 233,200.

Much of the long-term decline in the manufacturing sector has been influenced by both a structural shift in the economy and other economic factors. One sector that has been particularly hard hit is the auto industry, where several U.S.-owned automakers either plan to cut back on production and employment over the next few years, or have already done so.

In the forecast period, national manufacturing employment is expected to decline at a slower rate than in 2007, while job losses in the State are forecast to continue at more than 2.0 percent each year. Though some of the structural and cyclical job losses were similar for both the State and the nation, in New York the structural job losses will be much larger than the cyclical gains over the next few years due to a continuing decline in the manufacturing industries prevalent in New York State relative to those in the nation.

As problems in the housing and credit markets mount, the securities industry will continue to be adversely impacted. Several current news stories have reported severe job cuts on Wall Street. The extent to which these cuts may be balanced by hiring in firms that are doing well is still unclear. Securities industry employment in New York is estimated to have grown 2.1 percent in 2007. It is forecast to decline by 0.6 percent in 2008 and then grow by 1.8 percent in 2009. Industry employment had been doing well since the sharp declines during 2002 and 2003 (see Figure 38). Securities industry employment will grow faster in the nation than in New York State in 2008 and 2009, 1.3 percent and 2.1 percent, respectively.

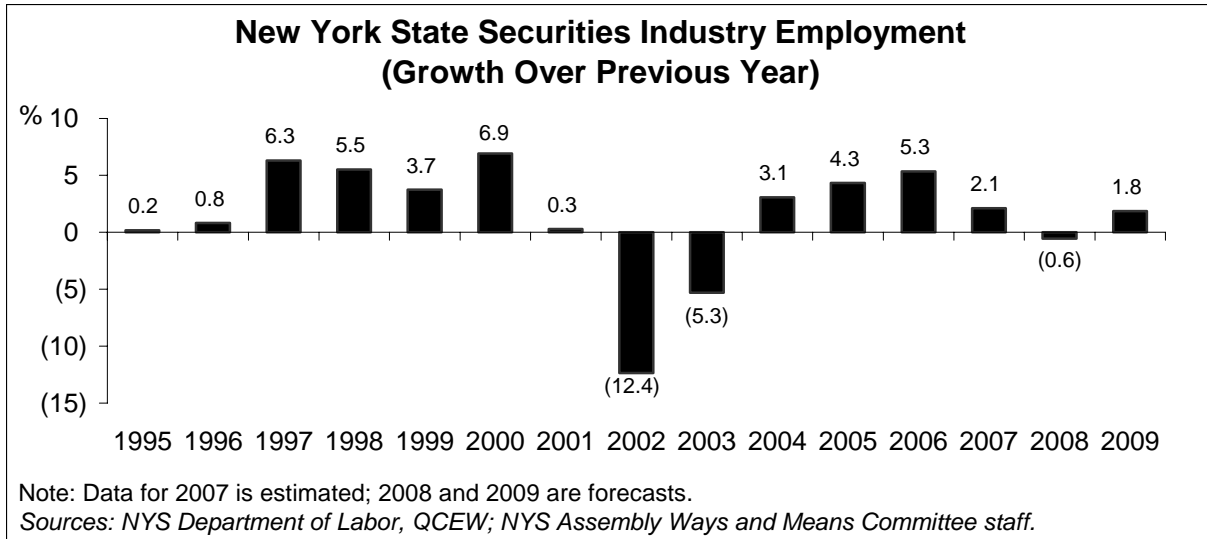


Figure 38

Wages

Wage growth in New York State is expected to be 2.8 percent in 2008, following an estimated 8.4 percent in 2007 (see Figure 39). Due to recent events that may limit profits on Wall Street, variable wages are not expected to grow as fast as in recent years. In 2008, variable wages are forecast to fall 2.7 percent, compared to an estimated gain of 36.8 percent in 2007 and 30.3 percent in 2006. Base wages will grow steadily throughout the forecast period, although at a slower rate than in 2006 (see Table 9).

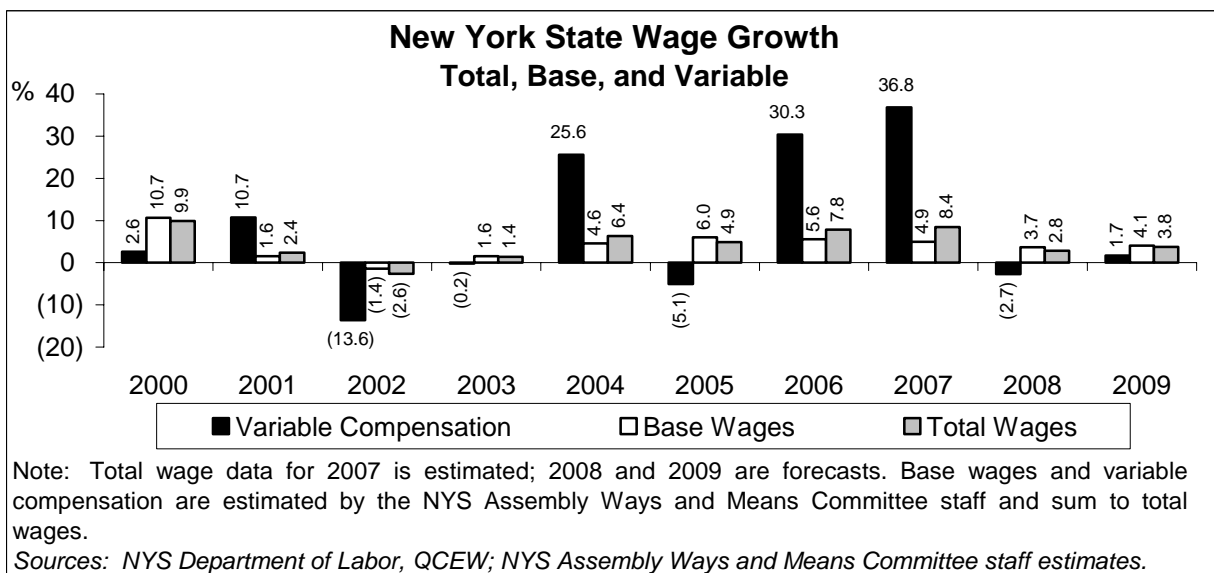


Figure 39

Strong overall wage growth in New York State has been helped by the State's unique concentration of the securities industry in New York City. Bonuses from this sector account for a significant portion of variable wages. When bonuses are strong, they have the potential to support wage growth even in the absence of other factors such as strong employment growth or gains in productivity.

Table 9

Personal Income, Wages, and CPI					
New York State					
		Actual	Estimate	Forecast	Forecast
		2006	2007	2008	2009
Personal Income	Percent Change	7.5	7.6	3.7	4.8
	<i>Level</i>	829.2	891.8	925.1	969.4
Total Wages	Percent Change	7.8	8.4	2.8	3.8
	<i>Level</i>	466.9	506.2	520.5	540.0
Base Wages	Percent Change	5.6	4.9	3.7	4.1
	<i>Level</i>	415.7	436.3	452.4	470.8
Variable Compensation	Percent Change	30.3	36.8	(2.7)	1.7
	<i>Level</i>	51.1	70.0	68.1	69.2
New York Area CPI	Percent Change	3.8	2.8	2.9	2.4

Note: Levels are in billions of dollars. New York area CPI is based on the New York-Nothorn NJ-Long Island, NY-NJ-CT-PA CPI-U series from the U.S. Bureau of Labor Statistics.

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

In 2007, New York State wage growth was an estimated 2.6 percentage points higher than the nation as a whole (see Figure 40). As the State is more impacted by a slowdown in variable wages than the nation, New York State wages are predicted to grow at a slower rate than national wages throughout the forecast period.

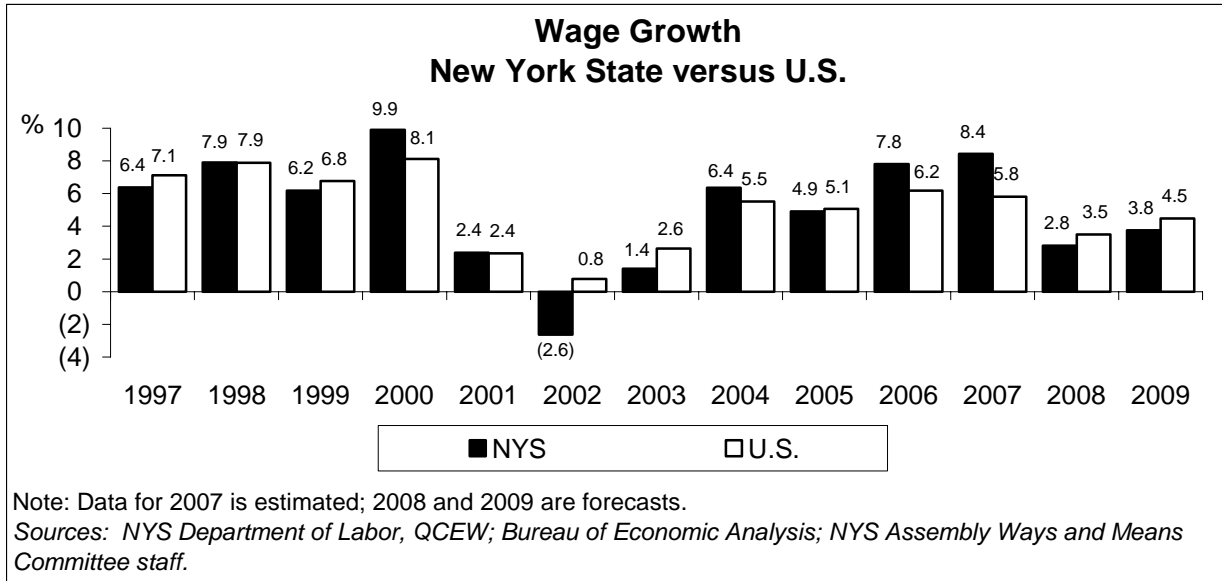


Figure 40

Between 1996 and 2006, New York State wages grew at an average rate of 5.0 percent per year, 0.2 percentage point lower than the average annual growth of national wages. Wages grew fastest in the downstate region, due to the concentration of financial sector employment in that region. The Finger Lakes and Western New York regions had the lowest average annual wage growth. These regions have been greatly affected by the decline in manufacturing jobs, which typically have a high average wage.

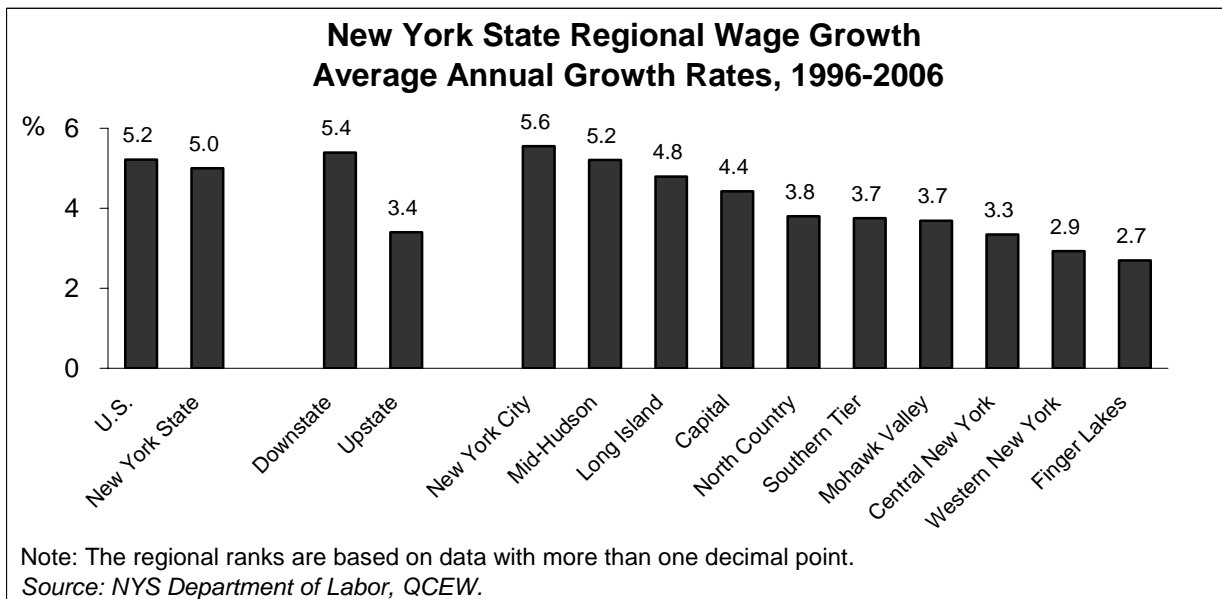


Figure 41

Variable Compensation

Variable compensation is the most volatile component of New York wages and plays an important role in forecasting State wages.⁴⁶ Variable compensation accounted for 10.5 percent of total compensation over the last five years. Since the 1970s, this share has increased from around five percent. Even though the share of variable compensation is small compared to base wages, its impact on changes in total compensation cannot be ignored.

Following the securities industry, the second largest source of variable compensation is non-securities financial activities, which includes the banking and real estate industries. Several of the other sectors that comprise the New York State economy pay only small amounts of variable compensation (see Figure 42).

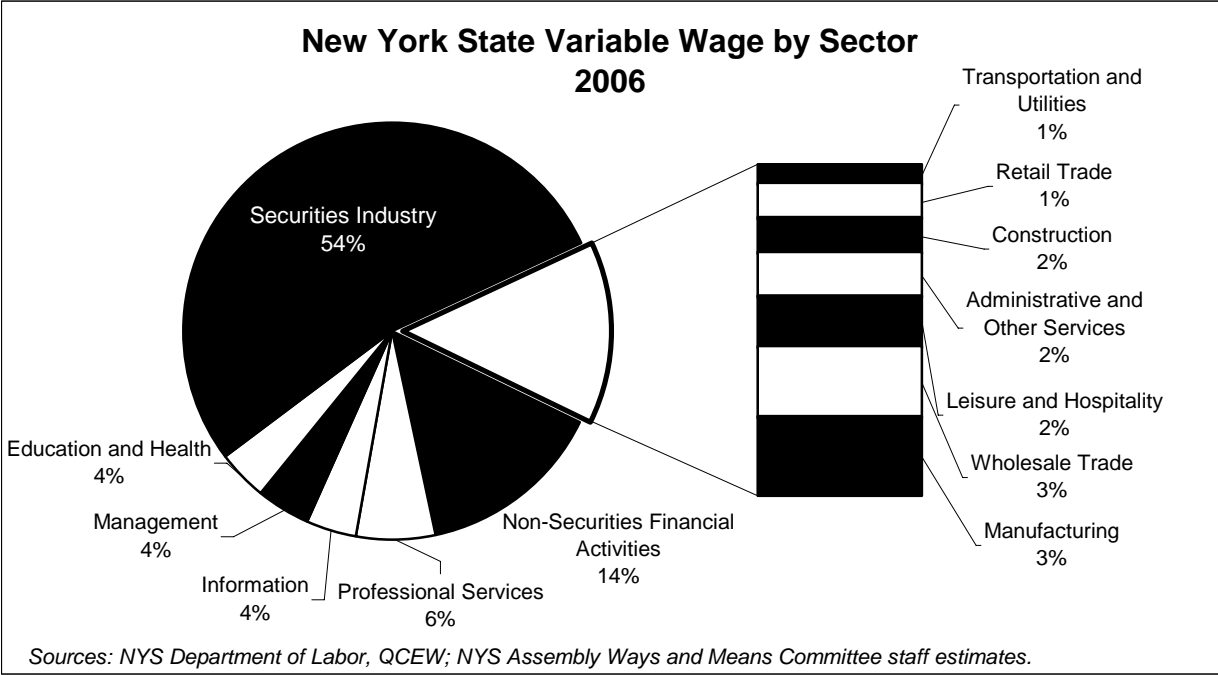


Figure 42

⁴⁶ There is no known series of data for state or national variable compensation. The NYS Assembly Ways and Means Committee staff estimates variable compensation based on seasonal variations in wage patterns. These seasonal patterns are broken down by sector (at the NAICS three-digit level) to improve the precision of the estimate. 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.

The NYS Assembly Ways and Means Committee staff estimates that New York State total variable compensation, which was \$51.1 billion in 2006, increased by 36.8 percent to \$70.0 billion in 2007. This will be followed by a decrease of 2.7 percent in 2008 and an increase of 1.7 percent in 2009.

Securities Industry

Securities industry variable compensation was an estimated \$37.1 billion in 2007. It is expected to fall 4.1 percent in 2008, and 1.1 percent in 2009. On a fiscal year basis, securities industry variable wages are forecast to fall 4.7 percent in State Fiscal Year (SFY) 2008-09 to \$34.3 billion. They are expected to grow 11.1 percent in SFY 2009-10.

Bonuses represent one of the major forecasting risks to the New York State forecast. While securities industry bonuses are related to industry revenues and profits, there may also be other factors in play. However, when examining the relationship between bonuses, revenues, and the performance of the S&P 500, some general relationships are observed. Historically, a decline in securities industry revenues coincided with a drop in bonuses. Flat or near flat securities industry revenue growth also seems to lead to negative bonus growth (see Figure 43). As securities industry revenue growth is expected to weaken in 2008 compared to 2007, the NYS Ways and Means Committee staff is expecting securities industry bonuses to fall 4.7 percent and total bonuses to decline 3.0 percent in the 2008-09 fiscal year.

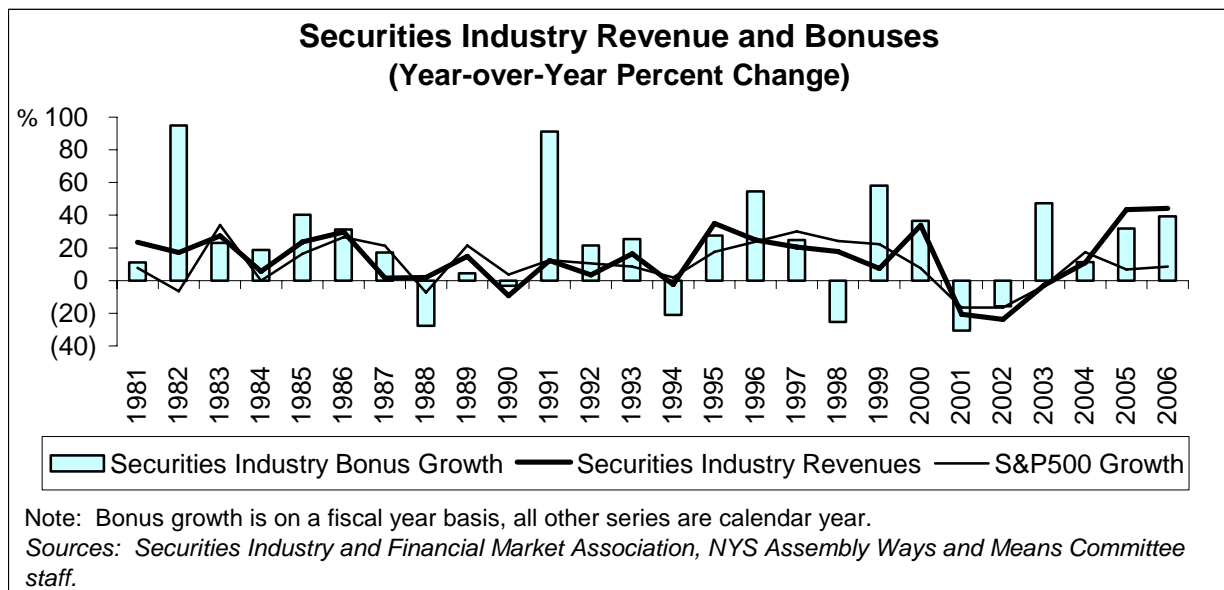


Figure 43

Securities industry variable compensation is linked with both securities industry revenue and profits. Security industry profits in 2006 were just slightly below the peak profitability level of 2000. However, profits in 2006 rose significantly from 2005, jumping from an estimated \$9.4 billion in 2005 to \$20.9 billion in 2006 (see Figure 44). Securities industry profits remained somewhat strong in the beginning of 2007; however, profits turned negative in the third quarter.

Total revenue for New York Stock Exchange (NYSE) member firms was up an estimated 44.2 percent in 2006 from 2005.⁴⁷ This revenue growth slowed to 11.0 percent for the first three quarters of 2007 compared to the first three quarters of 2006, due largely to write-downs and weak underwriting revenues. Gross revenues for the National Association of Securities Dealers (NASD) and NYSE member firms in the first half of 2007 were \$246.8 billion, up significantly from the first half of 2006. Revenues in many areas were strong, especially equity underwriting.⁴⁸

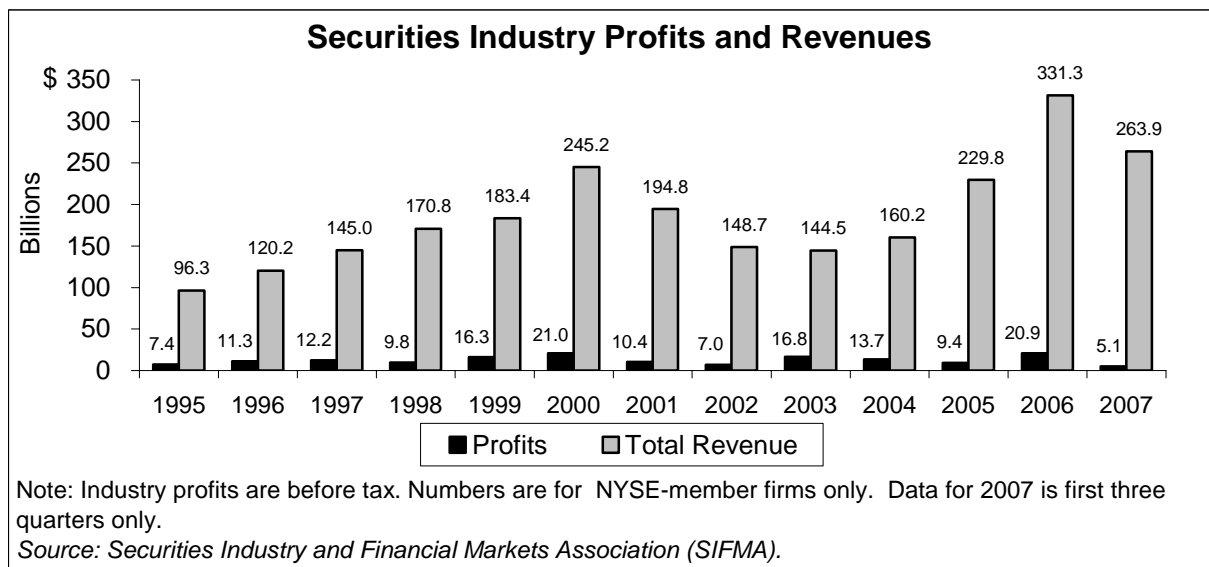


Figure 44

⁴⁷ Frank A. Fernandez and Paul R. Rainy, "Securities Industry Financial Results: 2006," Securities Industry and Financial Markets Association, *Research Report*, vol. 2, no. 9, May 2, 2007, <http://www.sifma.org/research/pdf/RRVol2-4.pdf>.

⁴⁸ Marcelo Vieira, "Industry Results Strong in the 2Q'07; Challenging Third Quarter," Securities Industry and Financial Markets Association, *Research Report*, September 28, 2007, p. 4, <http://www.sifma.org/research/pdf/RRVol2-9.pdf>.

In 2007, announced worldwide merger and acquisition deals surpassed a record, with record dollar amounts involved. In fact, the total transaction value of merger and acquisition activity in the first half of 2007 was at the highest annual rate ever. In the third quarter, total transaction activity slowed markedly to less than \$1 trillion globally, down from \$1.74 trillion in the previous quarter. The rapid decrease in deals was likely due to the extreme tightening of credit conditions. Merger and acquisition activity is likely to slow in 2008 from 2007 as lenders are no longer as willing to finance deals (see Figure 45).

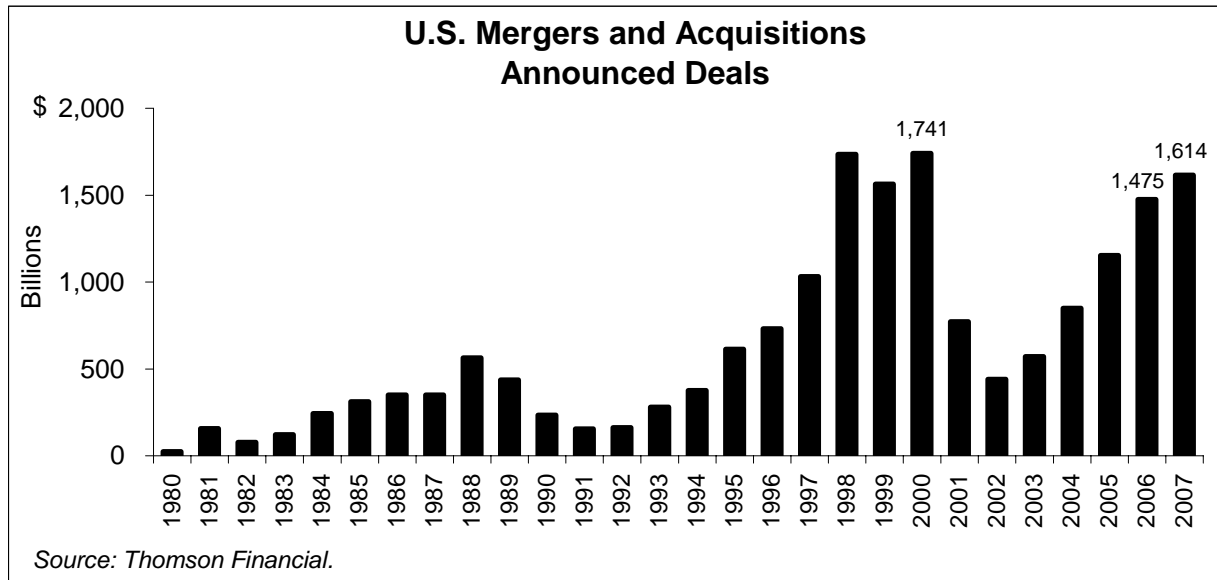


Figure 45

In addition to strong merger and acquisition activity, both initial public offering (IPO) activity and announcements of companies going private were strong in 2007. Investors have recently turned cautious regarding IPOs, and January 2008 was a slow month for IPOs.⁴⁹ In January 2008, seventeen initial public offerings were postponed or withdrawn. This is up from only three in January 2007. It was the biggest monthly number recorded since the dot-com bubble burst in 2000.⁵⁰

A poor performance in the third and fourth quarter of 2007 had a significant detrimental impact on final totals for 2007 securities industry profits. Although the third and fourth quarter reported profits for many securities industry firms were poor since many

⁴⁹ Lynn Cowan, "IPOs Slow on Broader Worries," *Wall Street Journal*, February 4, 2008, Deals & Deal Makers section, p. C5.

⁵⁰ Aaron Elstein, "IPO Market Dries Up in Latest Blow," *Crain's New York Business*, February 4-10, 2008, p.1.

firms had to include write-downs, the bonuses paid to workers for the 2007 season may hold up better than expected. The first half of 2007 was strong for most firms, and not all firms were affected by the credit crunch later in the year. Although the amount of profit firms reserved for compensation dipped at many companies in the third and fourth quarters, several of the major Wall Street firms laid aside as much, or more, money to use for compensation in 2007 as a whole compared to 2006 (see Figure 46). Since many of the 2007 bonuses are paid in the first quarter of 2008, this will likely help 2008 calendar year wage numbers. However, a substantial amount of this compensation laid aside may finance the future exercising of stock options, leading to some confusion over the actual size of cash bonus payouts. As write-downs continue, however, and profits fall, firms will unlikely be able to keep pace with 2007 compensation patterns in 2008 and 2009.

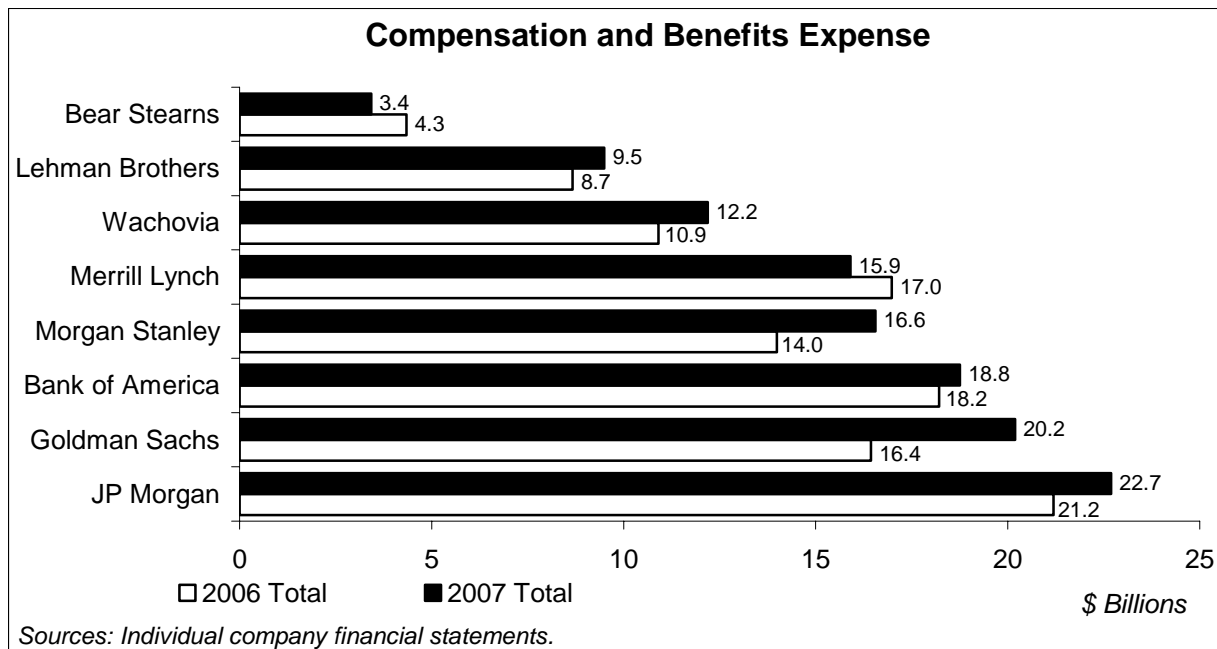


Figure 46

Another factor that may contribute to a downturn in the securities industry is the fact that the outlook for employment on Wall Street is now unclear. Many cuts were announced for the national financial activities sector in 2007. Additional cuts by several major firms have been announced in 2008. At the very least, hiring in the industry has slowed after building for several years, returning New York employment in the industry to

levels of the 2000 and 2001 technology boom.⁵¹ New York may be impacted more than the rest of the nation by lay-offs in the industry due to the high concentration of finance jobs in the New York City area.

The current tightening of credit availability will also have an impact on 2008 securities industry profitability. The companies will be affected not only by continued problems in the mortgage industry, but also by other credit problems such as the rising default rate on credit cards, home equity loans, and auto loans.⁵² If credit conditions do not ease, mergers and acquisitions, IPOs, and underwriting will remain slow and default rates may rise. Therefore, revenues in 2008 will likely be less than in 2007.

Currently, 11.0 percent of industry revenue comes from commissions and trading gains, as well as activities related mostly to the trading of stocks and bonds (see Figure 47). For the first three quarters of 2007, commission revenue and margin interest each contributed 8.0 percent of total revenue, while asset management fees contributed 6.0 percent to revenue. As a result of write-downs and trading losses, the share of trading gain (loss) revenue to total revenue dropped from 11.0 percent in 2006 to only 3.0 percent in the first three quarters of 2007. Over half of revenue comes from other revenue sources. The three largest sources of revenue in this category are mergers and acquisitions (M&A), prime brokerage revenue from growth in hedge fund activities, and interest revenue (aside from margin interest). Unfortunately, the current system of categorizing financial data used by the securities industry does not allow revenue from these three categories to be measured precisely.

⁵¹ See David Weidnet & Alistair Barr, "Wall Street Hiring Machines Go Idle," *Marketwatch*, September 4, 2007; and Joseph Giannone, "Many More Job Cuts Ahead for Wall St. Banks," *Guardian.co.uk*, February 15, 2008, <http://www.guardian.co.uk/feedarticle?id=7313581>.

⁵² Ken Sweet, "JP Morgan Dodges Subprime Bullet; Hit by Credit Cards," *FOXBusiness*, January 16, 2008, http://www.foxbusiness.com/markets/article/jpmorgan-dodges-subprime-bullet-hit-credit-ards_439407_2.html.

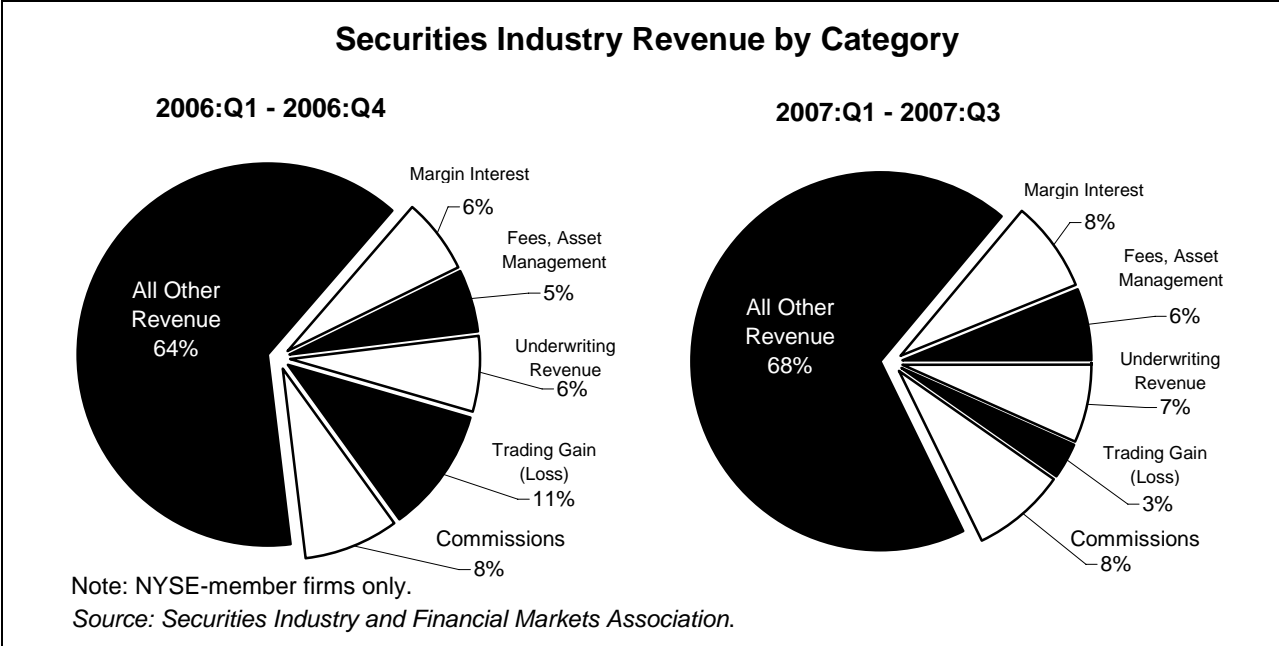


Figure 47

The two largest expenses for the industry are interest expense and compensation (see Figure 48). Despite a very high presence in expensive high-end Manhattan real estate, less than two percent of the industry’s expenses are related to the cost of property (i.e. occupancy expense). Given the structure of these expenses, it is likely that the securities

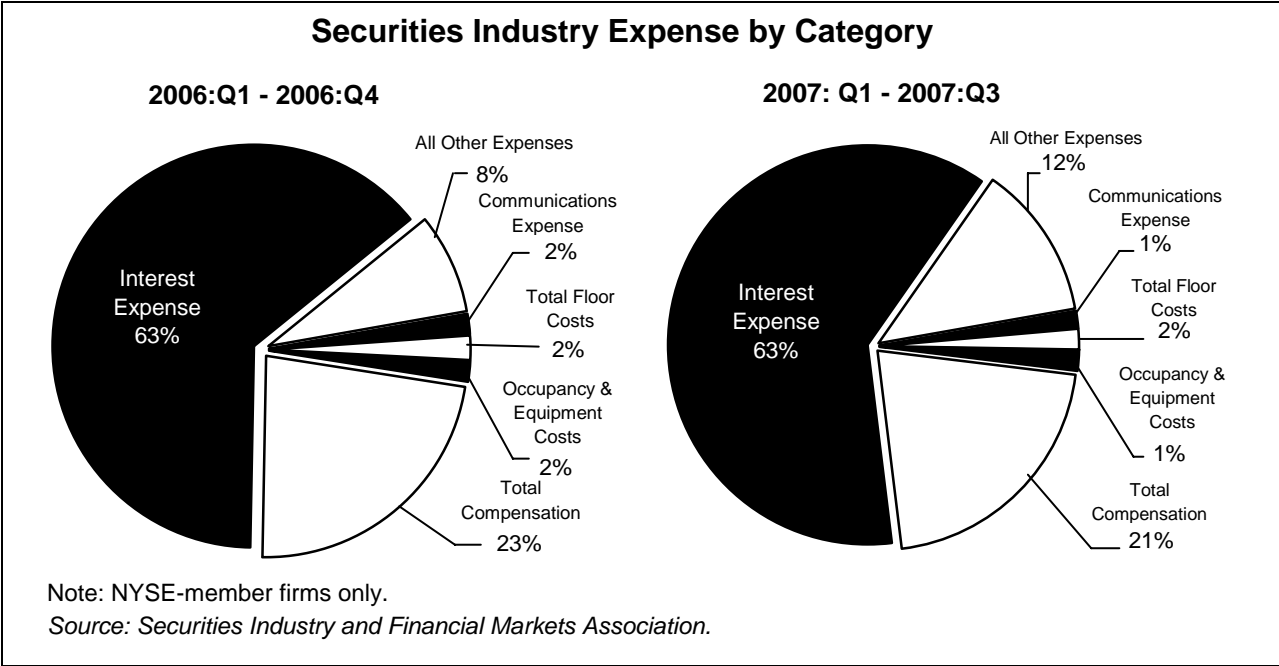


Figure 48

industry will continue to maintain a heavy presence in Manhattan as long as the industry's highly paid workers are allowed to conduct business more efficiently or it is simply a more attractive place to work for high-productivity employees.

Capital Gains

The most important factors that drive capital gains are the performance of financial markets, particularly equity markets, and the real estate markets. Corporate equity holdings accounted for 41.9 percent of the share of total realized U.S. capital gains, while real estate accounted for 10.6 percent in 1999, compared to 37.8 percent and 24.6 percent in 1985, respectively.⁵³ Capital gains realizations grew rapidly during the booming stock market of the late 1990s, but plummeted in 2001, triggered by the steep decline in stock prices from post-bubble corrections in the stock market and the events of September 11th.⁵⁴ After a further decline in 2002, taxable capital gains began to steadily rise in 2003 with the recovering stock market and the strengthening housing market (see Figure 49).

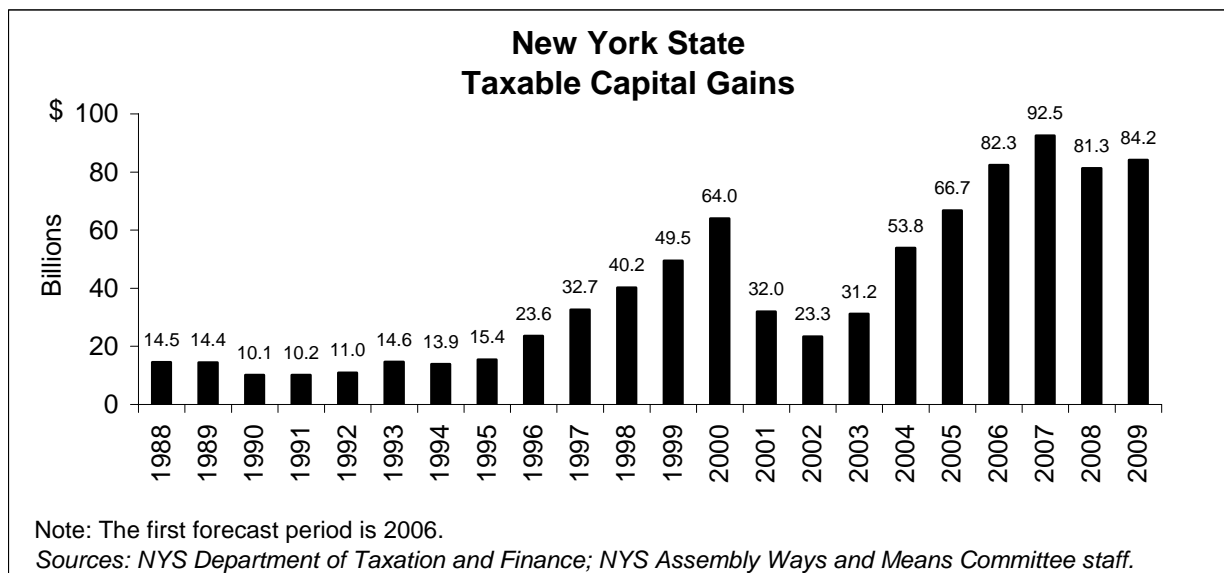


Figure 49

As home prices appreciated, homes sales jumped; consumer purchases of homes for investment purposes increased; and as the stock market soared, New York State capital

⁵³ Internal Revenue Service, "SOI Tax Stats - Individual Income Tax Returns with Short-Term and Long-Term Capital Gains and Losses," 1985 and 1999 issues, Table 2 from each issue.

⁵⁴ New York State capital gains were more adversely affected by the events of 9/11 because the equity market is one of the most important sectors in the State.

gains grew 24.0 percent to \$66.7 billion in 2005. Due to solid gains in the housing and stock markets, capital gains grew an estimated 23.4 percent to \$82.3 billion in 2006.⁵⁵ However, because of the recession in the housing market and various problems this has caused in the financial markets, capital gains are expected to grow only 12.4 percent, leading to a level of \$92.5 billion in 2007 compared to 2006. Given the overall decline in economic growth coupled with the continued deterioration in the housing market and the fall in corporate equity prices, capital gains are expected to decline 12.1 percent in 2008 to \$81.3 billion. Growth is forecast to rebound to 3.5 percent to \$84.2 billion in 2009 as economic conditions improve.

In general, New York State capital gains realization follows a similar growth pattern as the nation. Capital gains in the U.S. are expected to have grown 16.5 percent to \$798.0 billion in 2006, followed by 10.9 percent growth in 2007.⁵⁶ The real estate market downturn and the pullback in the equity markets are expected to drive U.S. capital gains down by 12.0 percent in 2008 to \$778.0 billion.

State Housing Market

In New York State, the proportion of subprime mortgages with adjustable rates increased more than tenfold from the first quarter of 1998 to the third quarter of 2007 (see Figure 50). Foreclosure filings in the State had been increasing rapidly since the third quarter of 2005, especially for those subprime borrowers with an Adjustable Rate Mortgage (ARM) (see Figure 51). Foreclosures in the State rose 10.2 percent in 2007 over 2006.⁵⁷ It is estimated that in New York State about 20.9 percent of subprime loans originating in 2006 will end up in foreclosure. This could cost the State more than \$100 million in property taxes lost.⁵⁸

⁵⁵ See Housing Market (pages 18 and 63) and Stock Market (page 39) sections of this report.

⁵⁶ Capital gains for 2006 are from the CBO. Values for 2007 and forward are forecasts by the NYS Assembly Ways and Means Committee staff. See Congress of the United States, Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Year 2008 to 2018*, January 2008.

⁵⁷ RealtyTrac Staff, "U.S. Foreclosure Activity Increases 75 percent in 2007," *RealtyTrac.com* (Irvine, CA) October 11, 2007, <http://www.realtytrac.com/ContentManagement/pressrelease.aspx?ChannelID=9&ItemID=3988&acct=64847>.

⁵⁸ Ellen Schloemer, Wei Li, Keith Ernst, and Kathleen Keest, "Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners," *Center for Responsible Lending*, December 2006, <http://www.responsiblelending.org/pdfs/FC-paper-12-19-new-cover-1.pdf>; Joint Economic Committee, *The Subprime Lending Crisis: The Economic Impact on Wealth, Property Values and Tax Revenues, and How We Got Here*, October 2007, <http://jec.senate.gov/Documents/Reports/10.25.07OctoberSubprimeReport.pdf>; and Global Insight, "The Mortgage Crisis: Economic and Fiscal Implications for Metro Areas," November 26, 2007.

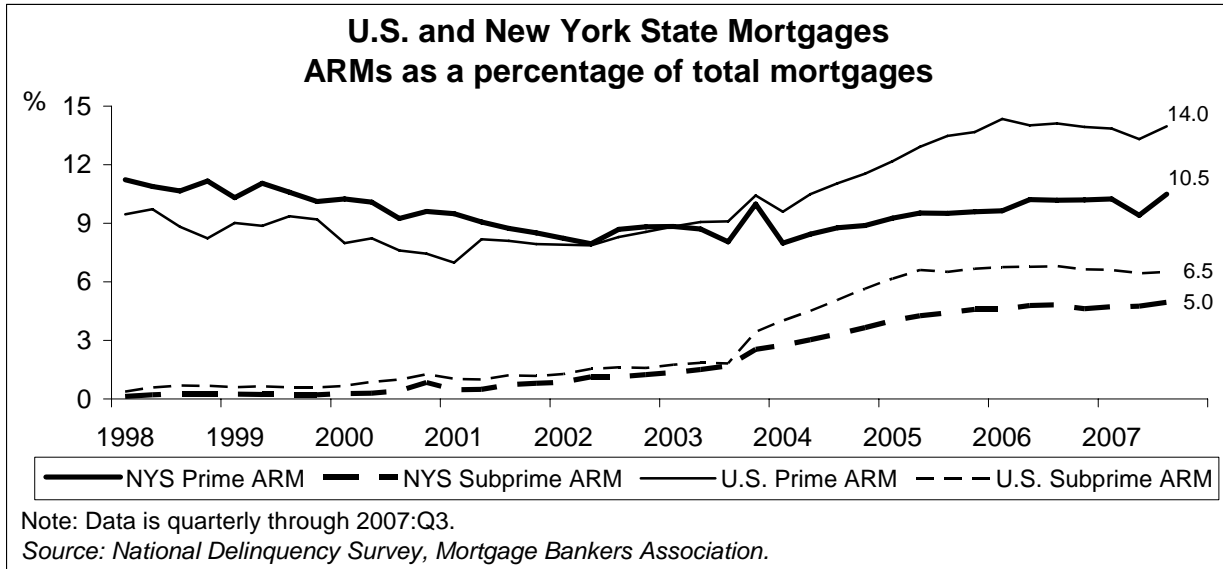


Figure 50

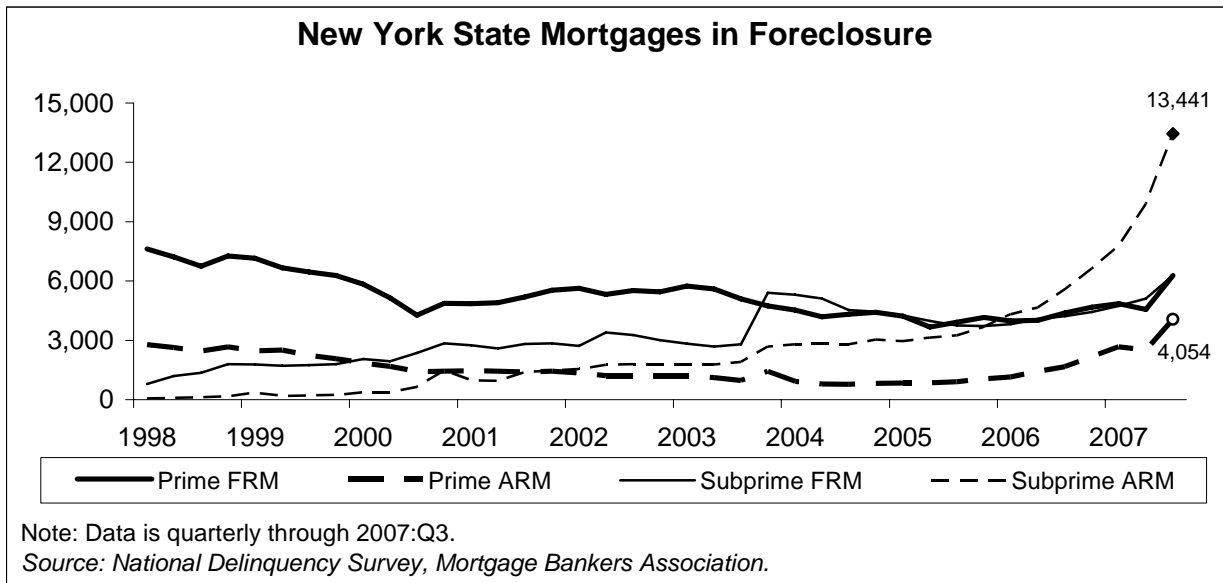


Figure 51

The rapid home price appreciation over the last several years has reduced housing affordability in the State. A wide disparity exists in housing affordability across New York. Over the past few years, some metropolitan areas in the State have become more affordable, while in other metropolitan areas, homes have become too expensive.

In 2006, less than 35 percent of all New York homeowners paid more than 30 percent of their income on housing, while nearly half of all renters paid more than 30 percent of their income on rent.⁵⁹ At the regional level, about half of the renters in Long Island, New York City, Poughkeepsie-Newburgh-Middletown, Rochester, Elmira, and Ithaca paid more than 30 percent of their income on housing expenditures. On the contrary, in Binghamton only 21 percent of homeowners paid more than 30 percent of their income on housing expenditures. Similarly, less than 42 percent of renters in Albany-Schenectady-Troy and Binghamton paid more than 30 percent of their household income on rent payment (see Table 10).

Table 10

New York State Housing Cost Burden				
	Owner		Renter	
	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				
Long Island	748,693	45.1	168,348	53.9
New York City	1,040,037	40.6	1,980,247	48.7
Poughkeepsie-Newburgh-Middletown	159,690	38.3	66,486	50.4
Kingston	47,444	34.6	23,249	45.8
Glens Falls	36,197	27.4	16,490	45.8
Albany-Schenectady-Troy	221,077	25.9	116,828	41.4
Rochester	277,096	25.7	120,740	50.6
Buffalo-Niagara Falls	307,035	25.4	152,705	45.3
Syracuse	173,699	24.4	79,874	46.6
Elmira	23,336	23.3	11,333	53.2
Utica-Rome	78,637	22.8	39,927	46.3
Ithaca	19,073	21.7	18,788	48.8
Binghamton	70,761	20.5	30,741	41.2
New York State	3,940,942	34.7	3,147,434	48.1
United States	75,086,485	30.3	36,530,917	46.0

Note: Housing costs for home owners include mortgage payment, real estate taxes, fire hazard and flood insurance, utilities, and fuels. Housing costs for renters is gross rent.
Source: U.S. Census Bureau, 2006 American Community Survey.

⁵⁹ Housing is considered affordable when it costs no more than 30 percent of household income.

The ratio of the median price of a new home divided by median household income in New York/White Plains rose from 3.1 to 8.4 from the third quarter of 2001 to the third quarter of 2006 before rising slightly to 8.8 in the third quarter of 2007. The Housing Opportunity Index in the Buffalo-Niagara Falls area rose from 75.0 percent in the third quarter of 2001 to 82.9 percent in the third quarter of 2006 (see Figure 52). 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).⁶⁰

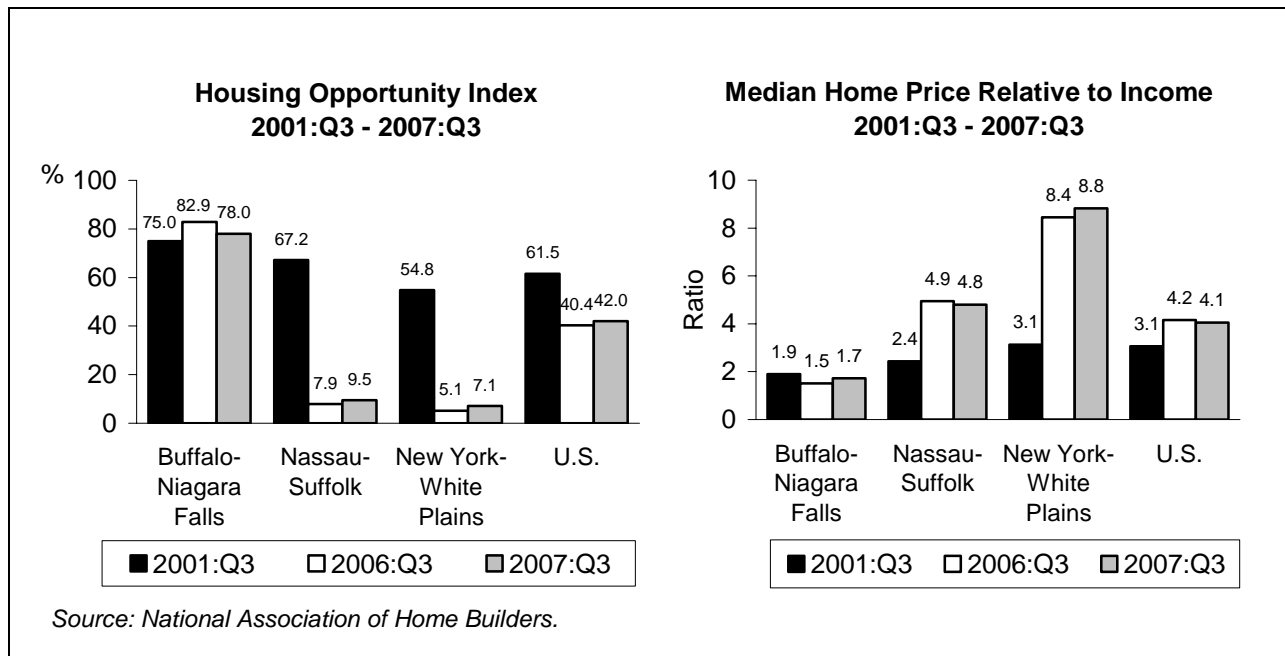


Figure 52

The negative impact of a cooling housing market has been widely debated. The slowdown of home prices may help improve the competitiveness of the region. Elevated home prices are considered the biggest problem for the Long Island region and is one of the possible causes of out-migration of young college-educated workers.⁶¹ An increase in housing affordability may help persuade young people to stay in the area and stimulate more job growth in the region.

⁶⁰ For more detail, see the National Association of Home Builders, "What is the NAHB-Wells Fargo Housing Opportunity Index (HOI)?" August 1, 2007.

⁶¹ Long Island Index, "2007 Long Island Index," p. 6; http://longislandindex.org/fileadmin/pdf/indexreports/LII_Index_AllSections.pdf.

New York State Forecast Comparison

The NYS Assembly Ways and Means Committee staff's New York State employment growth forecast for 2008 is 0.3 percent (see Table 11). It is 0.2 percentage point lower than the Division of Budget, 0.1 percentage point higher than Global Insight's forecast, and 0.5 percentage point higher than Moody's Economy.com's forecast.

The Assembly Ways and Means Committee staff's employment growth forecast for 2009 is 0.7 percent. The staff forecast is 0.2 percentage point higher than both the Division of Budget and Global Insight forecasts, and 0.6 percentage point higher than Moody's Economy.com forecast.

Table 11

New York State Forecast Comparison				
(Percent Change)				
	Actual	Estimate	Forecast	Forecast
	2006	2007	2008	2009
Employment				
Ways and Means	1.0	1.2	0.3	0.7
Division of the Budget	0.9	1.2	0.5	0.5
Global Insight	1.0	1.0	0.2	0.5
Moody's Economy.com	1.0	1.0	(0.2)	0.1
Wages				
Ways and Means	7.8	8.4	2.8	3.8
Division of the Budget	7.6	8.3	3.3	3.6
Global Insight	7.6	8.0	3.8	4.5
Moody's Economy.com	7.6	7.7	1.1	3.1
<i>Sources: NYS Assembly Ways and Means Committee staff; New York State Division of the Budget, 2008-09 Executive Budget Supplemented for 21-Day Amendments, February 12, 2008; Moody's Economy.com, February 2008; Global Insight, February 2008.</i>				

The Assembly Ways and Means Committee staff's wage growth forecast for New York State for 2008 is 2.8 percent. The staff forecast is 0.5 percentage point lower than the Division of the Budget, 1.0 percentage point lower than Global Insight, and 1.7 percentage points higher than Moody's Economy.com.

The Assembly Ways and Means Committee staff's wage growth forecast for 2009 is 3.8 percent. This is 0.2 percentage point higher than the Division of Budget, 0.7 percentage point higher than Moody's Economy.com, and 0.7 percentage point lower than Global Insight.

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RISKS TO THE FORECAST

Many risks to the national economic forecast exist. The downturn in the housing market has been a drag on economic growth and problems in the sector remain. Continued concerns in the housing market could lead to further weakening of economic growth. Current uncertainty triggered by credit and liquidity issues has caused volatility in the stock market and has also created problems for consumers, some of whom are no longer able to obtain credit.

The Federal Reserve has cut interest rates aggressively and has indicated their willingness to respond further to economic softening. There is some risk, however, that these actions may not be effective in stabilizing and/or stimulating the economy.

Energy prices have the potential to trim economic growth should they continue to rise higher than expected. As supply and demand conditions remain tight, the potential for volatility and higher prices remains. Energy prices can be influenced by a variety of unpredictable factors including inclement weather and geo-political tensions. Issues in any of these areas could cause spikes in energy prices that, if sustained, may cause downward pressure on growth.

There is some upside potential to the forecast. Fed rate cuts may help stabilize the housing and financial markets sooner than expected in the current forecast. Consumers may spend more than the estimated 30 to 40 percent of the spring 2008 rebate checks, boosting the economy more than anticipated. There could also be a sustained decrease in oil prices further than assumed in this forecast, which would have positive impacts on growth.

Other current events that may add to economic uncertainty include the Iraq War, tensions in the Middle East, other geo-political issues, and a faltering in consumer and business confidence. Economic factors that may present a risk to the economic outlook include the possibility of weakened global growth or a continued decline of the dollar. Furthermore, the economic policy implications resulting from the presidential election in 2008 are unclear.

The risks to the United States forecast are also a concern for the New York State forecast. In addition, the State economy is quite susceptible to changes in the securities industry, especially the variability in bonuses from year to year, as the bonuses paid by the

securities industry are a major driver of State variable wages. In 2008, the possibility of layoffs, continued write-offs, and lower earnings represent a risk for the industry outlook and the New York State forecast.

The possibility of higher bonus payouts than assumed in this report represents an upside potential to New York State wages and personal income. If the credit crunch affects Wall Street less severely, or should Wall Street find innovative ways to operate profitably under restrained credit conditions, the outlook for Wall Street could be better than anticipated.

There is some danger that should all the downside risks materialize in their worst form, the United States would not only enter a recession, but it might be more severe than most recent recessions. Should this occur, the negative impact on New York State would also be more severe.

APPENDICES

Appendix A

U.S. Recessions since World War II (based on NBER Business Cycle Dates)					
Peak to Trough	Duration (in quarters)	Depth (Change from peak to trough)			
		GDP	Consumption	Investment	Employment
1948 Q4-1949 Q4	4	(1.7%) (\$28.1)	3.3% \$35.4	(25.5%) (\$53.0)	(5.0%) (2,244.0)
1953:Q3-1954 Q2	3	(2.0%) (\$41.1)	0.9% \$11.9	(8.9%) (\$19.5)	(3.1%) (1,571.0)
1957 Q3-1958 Q2	3	(3.2%) (\$73.6)	(0.6%) (\$8.1)	(17.3%) (\$43.2)	(4.0%) (2,102.0)
1960 Q2-1961 Q1	3	(0.5%) (\$13.6)	(0.3%) (\$4.9)	(10.7%) (\$28.6)	(2.3%) (1,256.0)
1969 Q4-1970 Q4	4	(0.2%) (\$6.5)	1.7% \$40.3	(7.0%) (\$30.8)	(1.2%) (831.0)
1973 Q4-1975 Q1	5	(3.1%) (\$135.7)	(0.6%) (\$17.6)	(26.8%) (\$162.4)	(1.6%) (1,260.0)
1980 Q1-1980 Q3	2	(2.2%) (\$113.9)	(1.2%) (\$39.7)	(15.9%) (\$111.3)	(1.1%) (968.0)
1981 Q3-1982 Q4	5	(2.6%) (\$140.0)	2.9% \$98.2	(22.5%) (\$163.2)	(3.1%) (2,824.0)
Average Over All Previous Recessions	3.6	(1.9%) (\$69.1)	0.8% \$14.4	(16.8%) (\$76.5)	(2.7%) (1,632.0)
1990 Q3-1991Q1	2	(1.3%) (\$90.0)	(1.1%) (\$54.5)	(10.1%) (\$91.1)	(1.1%) (1,240.0)
2001 Q1-2001 Q4	3	0.3% \$34.4	2.4% \$164.5	(10.6%) (\$176.9)	(1.2%) (1,599.0)
2007 Q4-2008 Q2*	2	(0.2%) (\$19.9)	(0.0%) (\$1.3)	(3.6%) (\$57.9)	(0.2%) (222.9)
<p>Note: Depth is defined as the peak level minus the trough level. GDP, consumption, and investment are in chained 2000 dollars. Employment is non-farm total and in thousands. The percentages are the depth divided by the peak level. The peak and trough dates are the dates picked by the NBER Business Cycle Dating Committee.</p> <p>*Based on the NYS Assembly Ways and Means Committee staff forecast.</p> <p>Source: Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.</p>					

Appendix B

NYS Employment and Wages in NAICS Sectors						
	Employment (Thousands)			Wages (\$ in Billions)		
	Estimate 2007	Forecast 2008	Forecast 2009	Estimate 2007	Forecast 2008	Forecast 2009
Total	8,510.4	8,539.5	8,603.1	506.2	520.5	540.0
Education & Health	1,490.6	1,513.6	1,541.4	62.9	66.3	69.6
Government	1,430.4	1,436.4	1,441.8	72.6	75.2	77.6
Retail Trade	889.5	893.3	898.2	26.1	27.1	28.2
Other Services	749.2	748.1	750.6	26.8	27.6	28.4
Financial Activities	725.9	719.2	724.7	120.5	120.4	123.9
Leisure & Hospitality	694.8	703.3	711.6	18.1	18.8	19.8
Professional Services	572.1	583.0	596.3	48.2	50.8	53.8
Manufacturing	557.1	542.8	529.9	31.3	31.5	31.7
Wholesale Trade	355.1	356.7	359.0	24.6	25.5	26.4
Construction	347.0	349.5	353.8	19.1	19.6	20.5
Transport & Utilities	266.8	268.2	270.0	13.3	13.9	14.3
Information	260.2	256.8	255.7	22.7	23.3	24.0
Management of Companies	127.5	128.6	130.3	18.5	19.5	20.7
<p>Note: Some NAICS sectors are grouped with others. For sector definitions, see Appendix I. Sources: NYS Department of Labor, QCEW; NYS Assembly Ways and Means Committee staff.</p>						

Appendix C

NYS Employment and Wage Growth in NAICS Sectors (Percent Change)						
	Employment			Wages		
	Estimate 2007	Forecast 2008	Forecast 2009	Estimate 2007	Forecast 2008	Forecast 2009
Total	1.2	0.3	0.7	8.4	2.8	3.8
Professional Services	4.0	1.9	2.3	9.0	5.4	5.9
Construction	3.4	0.7	1.2	7.4	3.0	4.2
Leisure & Hospitality	2.9	1.2	1.2	7.6	3.9	5.1
Education & Health	2.2	1.5	1.8	7.4	5.4	5.1
Retail Trade	1.3	0.4	0.5	5.7	3.7	4.0
Wholesale Trade	0.9	0.5	0.6	6.7	3.6	3.7
Government	0.8	0.4	0.4	5.3	3.5	3.2
Transport & Utilities	0.8	0.5	0.7	6.3	3.8	3.6
Management of Companies	0.7	0.9	1.3	15.9	5.3	6.2
Other Services	1.1	(0.2)	0.3	6.1	3.0	3.1
Financial Activities	0.6	(0.9)	0.8	14.8	(0.0)	2.9
Information	(2.5)	(1.3)	(0.4)	4.9	2.3	3.0
Manufacturing	(2.3)	(2.6)	(2.4)	2.2	0.5	0.8

Note: Some NAICS sectors are grouped with others. For sector definitions, see Appendix I.
Sources: NYS Department of Labor, QCEW; NYS Assembly Ways and Means Committee staff.

Appendix D

New York State Economic Outlook					
State Fiscal Year					
		Actual	Estimate	Forecast	Forecast
		2006-07	2007-08	2008-09	2009-10
Employment	Percent Change	1.1	0.9	0.5	0.8
	Level	8,435.7	8,513.4	8,554.0	8,621.0
Personal Income	Percent Change	7.3	5.5	3.6	5.6
	Level	853.6	900.8	933.1	985.4
Total Wages	Percent Change	7.7	5.0	2.8	5.0
	Level	485.0	509.2	523.2	549.5
Base Wages	Percent Change	5.0	4.7	3.7	4.2
	Level	420.7	440.5	456.6	475.9
Variable Compensation	Percent Change	29.4	6.8	(3.0)	10.3
	Level	64.3	68.7	66.7	73.5
CPI (1982-84=100)	Percent Change	3.7	3.0	2.6	2.4
	Level	222.3	229.1	234.9	240.6

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

Appendix E

U.S. Economic Outlook (Levels)				
	Actual	Estimate	Forecast	Forecast
	2006	2007	2008	2009
Real GDP*	11,319.4	11,565.1	11,733.4	12,029.3
Real Consumption*	8,044.1	8,275.7	8,398.1	8,575.9
Real Investment*	1,919.6	1,829.6	1,764.1	1,820.0
Real Exports*	1,304.1	1,407.6	1,505.3	1,599.5
Real Imports*	1,928.6	1,967.6	2,005.2	2,073.1
Real Government*	1,981.4	2,022.4	2,072.7	2,108.6
<i>Federal*</i>	742.3	754.9	780.7	797.7
<i>State and Local*</i>	1,239.0	1,267.3	1,291.8	1,310.7
Personal Income**	10,983.4	11,667.2	12,111.7	12,710.3
<i>Wages & Salaries**</i>	6,018.2	6,367.4	6,590.0	6,885.2
Corporate Profits (Economic Basis)**	1,553.7	1,593.5	1,550.1	1,668.1
Productivity (1992=100)	135.4	137.6	140.1	142.7
Employment***	136.1	137.6	138.0	139.3
CPI-Urban (1982-84=100)	201.6	207.3	213.4	218.3
S&P 500 Stock Price (1941-43=10)	1,310.7	1,478.3	1,400.9	1,488.3
Treasury Bill Rate (3-month)****	4.7	4.4	1.6	2.7
Treasury Bond Rate (10-year)****	4.8	4.6	3.6	4.2
<p>* In billions of chained 2000 dollars. ** In billions of dollars. *** In millions. **** Annual average rate.</p>				
<p><i>Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; Federal Reserve Board of Governors; Standard and Poor's; NYS Assembly Ways and Means Committee staff.</i></p>				

Appendix F

U.S. Economic Outlook State Fiscal Year (Levels)				
	Actual	Estimate	Forecast	Forecast
	2006-07	2007-08	2008-09	2009-10
Real GDP*	11,362.9	11,624.7	11,798.2	12,110.7
Real Consumption*	8,107.5	8,305.7	8,440.3	8,626.0
Real Investment*	1,887.5	1,817.5	1,768.9	1,843.1
Real Exports*	1,325.2	1,436.7	1,528.9	1,622.5
Real Imports*	1,942.6	1,971.9	2,019.7	2,096.5
Real Government*	1,987.1	2,039.0	2,081.4	2,117.3
<i>Federal*</i>	742.3	763.5	785.2	801.7
<i>State and Local*</i>	1,244.7	1,275.3	1,296.1	1,315.4
Personal Income**	11,153.9	11,793.7	12,233.1	12,886.0
<i>Wages & Salaries**</i>	6,105.4	6,426.2	6,645.6	6,982.2
Corporate Profits (Economic Basis)**	1,561.7	1,574.7	1,594.9	1,672.3
Productivity (1992=100)	135.5	138.4	140.8	143.3
Employment***	136.5	137.8	138.2	139.7
CPI-Urban (1982-84=100)	202.8	209.2	214.6	219.5
S&P 500 Stock Price (1941-43=10)	1,346.2	1,464.9	1,423.2	1,508.3
Treasury Bill Rate (3-month)****	4.9	3.7	1.6	3.1
Treasury Bond Rate (10-year)****	4.8	4.4	3.6	4.3
<p>* In billions of chained 2000 dollars. ** In billions of dollars. *** In millions. **** Fiscal Year average rate.</p> <p><i>Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; Federal Reserve Board of Governors; Standard and Poor's; NYS Assembly Ways and Means Committee staff.</i></p>				

Appendix G

U.S. Economic Outlook				
(Percent Change)				
	Actual	Estimate	Forecast	Forecast
	2006	2007	2008	2009
Real GDP	2.9	2.2	1.5	2.5
Real Consumption	3.1	2.9	1.5	2.1
Real Investment	2.7	(4.7)	(3.6)	3.2
Real Exports	8.4	7.9	6.9	6.3
Real Imports	5.9	2.0	1.9	3.4
Real Government	1.8	2.1	2.5	1.7
<i>Federal</i>	2.2	1.7	3.4	2.2
<i>State and Local</i>	1.6	2.3	1.9	1.5
Personal Income	6.6	6.2	3.8	4.9
<i>Wages & Salaries</i>	6.2	5.8	3.5	4.5
Corporate Profits (Economic Basis)	13.2	2.6	(2.7)	7.6
Productivity	1.0	1.6	1.8	1.9
Employment	1.8	1.1	0.3	0.9
CPI-Urban	3.2	2.9	2.9	2.3
S&P 500 Stock Price	8.6	12.8	(5.2)	6.2
Treasury Bill Rate (3-month)*	4.7	4.4	1.6	2.7
Treasury Note Rate (10-year)*	4.8	4.6	3.6	4.2

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

Appendix H

U.S. Economic Outlook				
State Fiscal Year				
(Percent Change)				
	Actual	Estimate	Forecast	Forecast
	2006-07	2007-08	2008-09	2009-10
Real GDP	2.4	2.3	1.5	2.6
Real Consumption	3.1	2.4	1.6	2.2
Real Investment	(0.3)	(3.7)	(2.7)	4.2
Real Exports	7.9	8.4	6.4	6.1
Real Imports	5.0	1.5	2.4	3.8
Real Government	1.6	2.6	2.1	1.7
<i>Federal</i>	1.5	2.9	2.8	2.1
<i>State and Local</i>	1.7	2.5	1.6	1.5
Personal Income	6.4	5.7	3.7	5.3
<i>Wages & Salaries</i>	5.9	5.3	3.4	5.1
Corporate Profits (Economic Basis)	11.0	0.8	1.3	4.9
Productivity	0.7	2.1	1.7	1.8
Employment	1.6	0.9	0.3	1.1
CPI-Urban (1982-84=100)	2.9	3.2	2.5	2.3
S&P 500 Stock Price (1941-43=10)	9.5	8.8	(2.8)	6.0
Treasury Bill Rate (3-month)*	4.9	3.7	1.6	3.1
Treasury Note Rate (10-year)*	4.8	4.4	3.6	4.3

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

Appendix I

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

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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)
54	Professional, Scientific, and Technical Services
541	Professional, Scientific, and Technical Services

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

Code	NAICS Title
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.