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Speaker of the Council

Hon. **Justin Brannan**
Chair of the Committee on Finance

FEBRUARY 2024

Economic & Tax Revenue Forecast

February 29, 2024

Prepared by: Revenue & Economics Unit

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Overview

Stronger Economic Outlook But Weakened Growth Ahead

The national and City economic prospects have improved. However, the lagged effects of higher interest rates will keep economic growth below its long run average.

Improved Tax Revenue Projections, But Slower Growth Rate Still Expected

The Council has raised its tax revenue projections since its last forecast in Dec-2023, considering the recent economic momentum. Nonetheless, overall growth rate is still weaker than the previous decade.

More Tax Revenues than OMB Projects

With the improved projections, the Council now expects $3.3 billion more in tax revenues than OMB over Fiscal 2024 and Fiscal 2025.

Calendar Year 2024 Economic Indicators Forecast

Headline Inflation

US: **2.8%**

NYC: **1.5%**

Fed. Funds Rate

5.0%

Real GDP/GCP

US: **+2.4% YoY***

NYC: **+1.5% YoY**

Private Employment

US: **+1.2 YoY**

NYC: **+2.1% YoY**

Unemployment Rate

US: **3.9%**

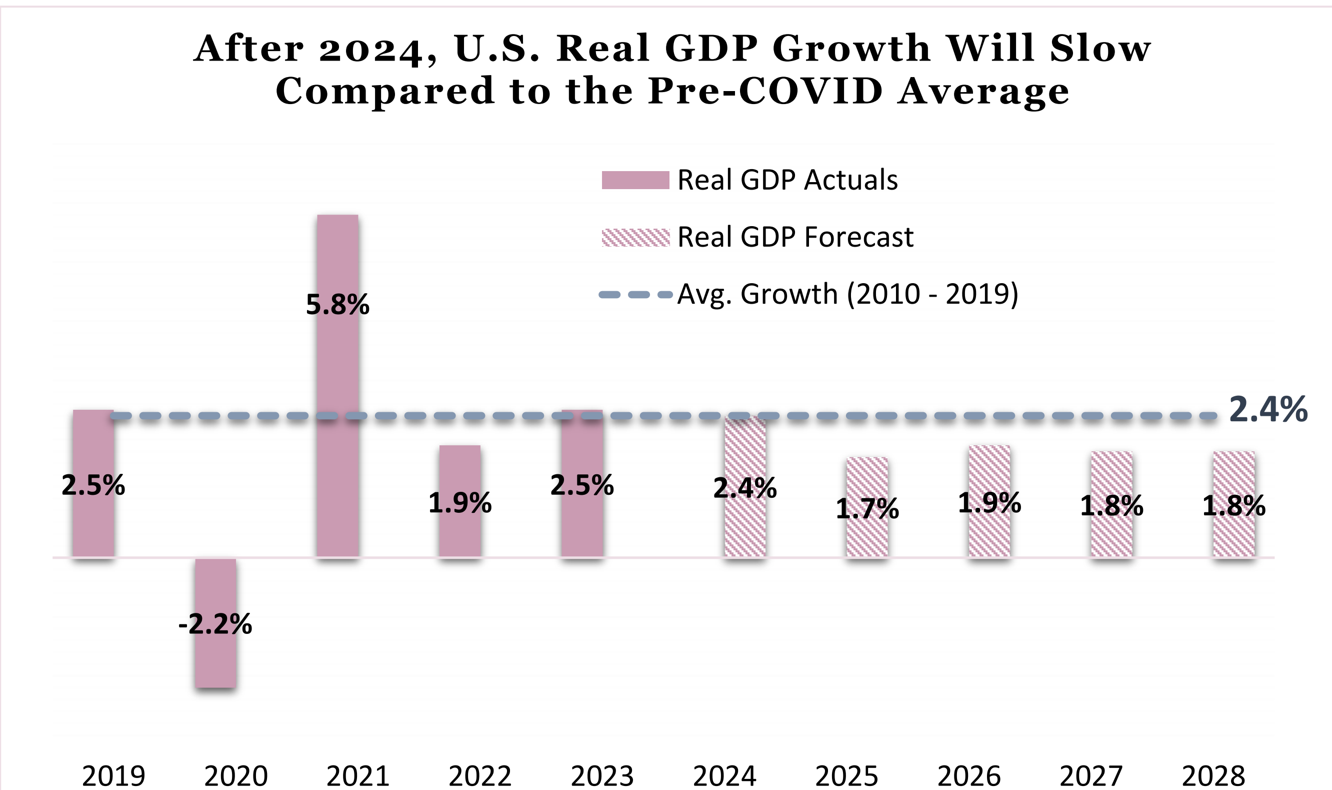
NYC: **5.3%**

**YoY: Year-over-Year*

National Economy: Strong Economic Activity Has Improved Outlook, But Growth Ahead Will Be Moderate

The national economy has continuously outperformed expectations, with several leading indicators remaining robust.

- Real GDP grew by a remarkable 3.2% in 2023 Q4, driven by strong consumer and government spending, as well as business activity.
- Nonfarm employment gains for Dec-2023 was revised upward by over 100,000 jobs, while Jan-2024 saw a 353,000 job increase.



Source: U.S. Bureau of Economic Analysis, Council Finance

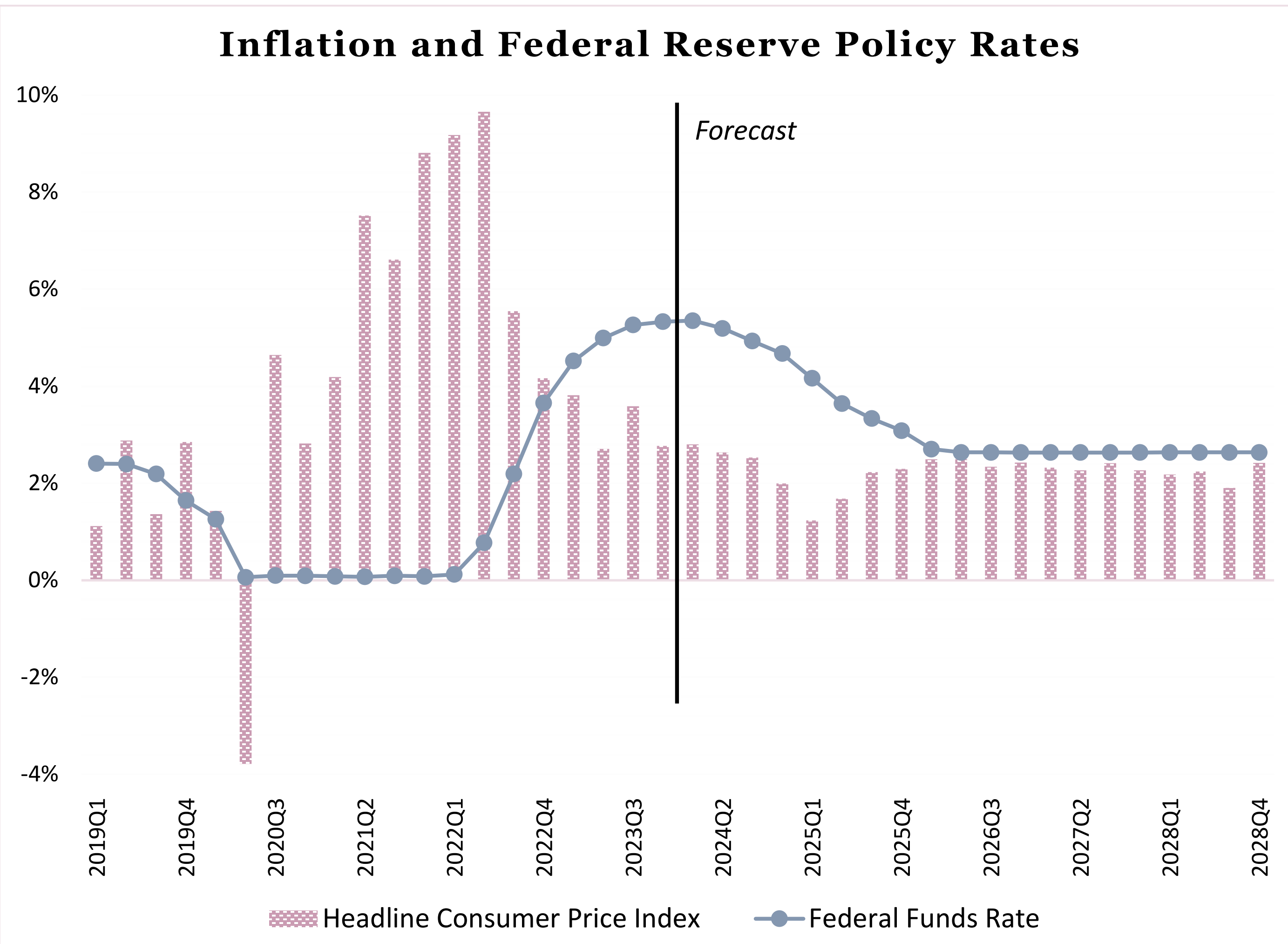
Looking Ahead, the Council expects the national economy to slow down as the lagged impact of high interest rates continue to plague economic growth beyond 2024.

- Real GDP growth for 2024 has been revised upward to 2.4%, conforming with the unexpected robust growth trend reported for the last quarter of 2023.
- However, rising consumer debt and the lagged effects of higher interest rates will keep economic growth well below prior decade's average of 2.4%.
- The labor market will continue to loosen with rising unemployment rate peaking at 4.4% in 2025.

National Economy: Federal Reserve Expected to Begin Rate Cuts in 2024 as Inflation Approaches Target of 2 Percent

Consumer prices are expected to continue to decelerate and converge near the Federal Reserve's target of two percent.

- Headline inflation rose by 3.1% year-over-year in Jan-2024 (non-seasonally adjusted), following a 3.4% increase for the 12 months ending in Dec-2023.
- Going forward, headline inflation will gradually decelerate to 2.2% by the end of the forecast period.

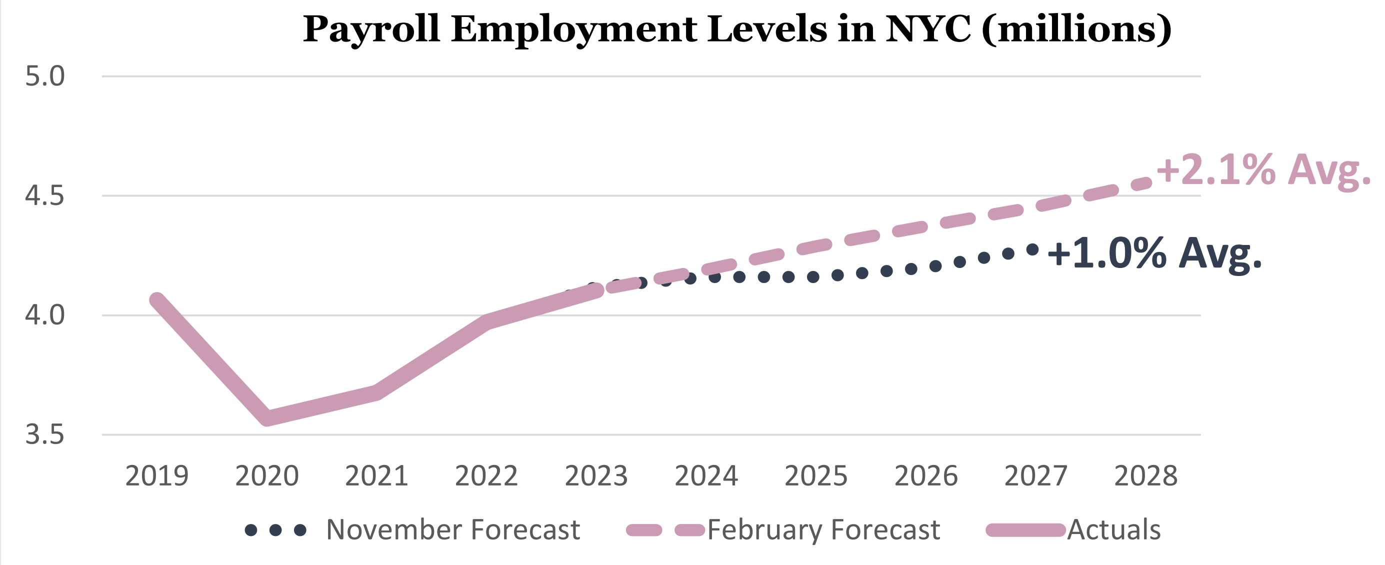


Source: U.S. Bureau of Labor Statistics, U.S. Board of Governors of the Federal Reserve System , Council Finance

The Federal Reserve is expected to begin a gradual reduction of the Federal Funds Rate as inflation recedes.

- In response to slowing inflation, the Feds will begin cutting the Federal Funds rate in 2024.
- The Federal Funds Rate will drop to 2.6% in 2026 Q2 and remain unchanged through the end of 2028.

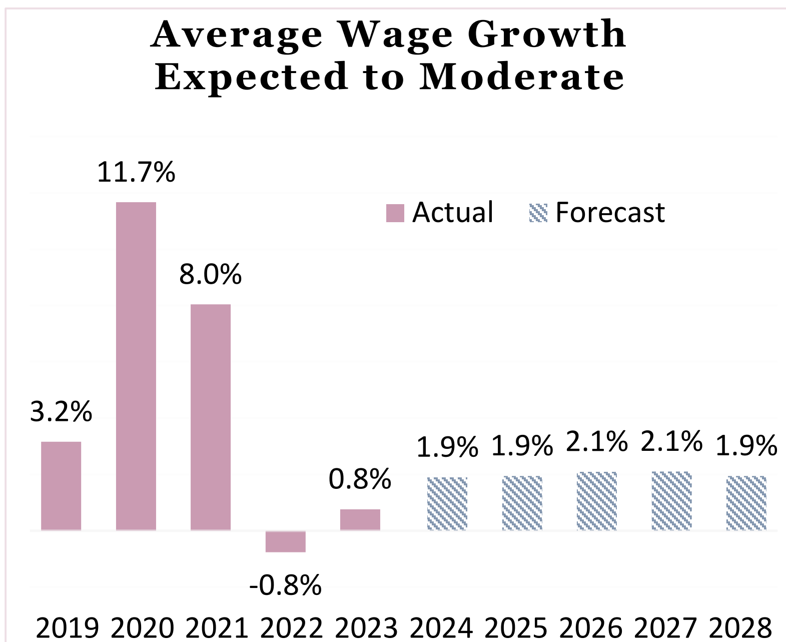
City Economy: NYC Employment Outlook has Improved, but Job Growth Expected to Remain Below Pre-COVID Pace



Source: NY Department of Labor, Council Finance

The City's labor market continues to cool as job gains have been uneven.

- Total employment growth slowed to 1.8% percent (year-over-year) in 2023 Q4, following a solid 3% growth in the previous quarter.
- Healthcare and education sectors drove the City's job gains, while job levels in the retail, leisure & hospitality, and construction sectors remain below their pre-COVID levels.
- Sectors with average wages under $55,000 gained 66,000 jobs. In contrast, those with average wages over $55,000 lost 12,000 jobs over the past year.

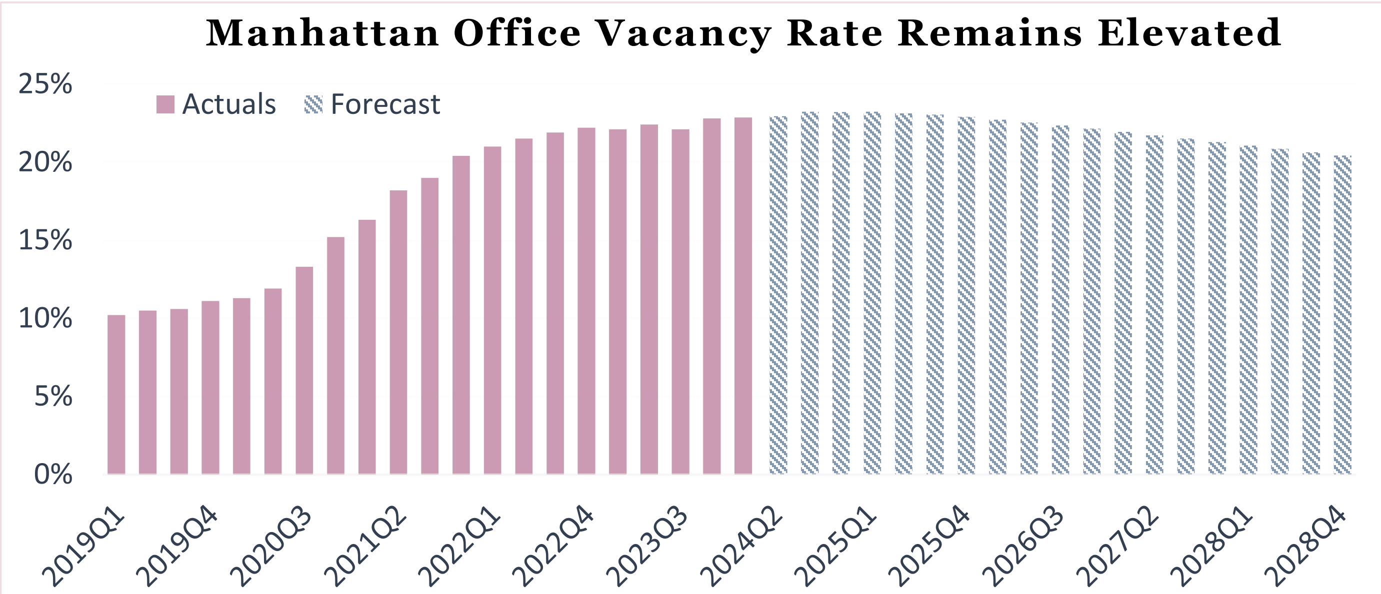


Source: NY Department of Labor, Council Finance

Looking ahead, employment in the City will continue to grow, albeit at a slower pace than the pre-COVID average. Average wages in the City will moderate throughout the forecast period.

- The Council is upwardly adjusting its City employment forecast. Private sector jobs will grow at an annual average rate of 2.1% throughout the forecast period – significant improvement from the one percent average growth it projected in Dec-2023.
- Despite the improved outlook, the 2.1% job growth is still weaker than the 2.6% average annual growth experienced between 2010 and 2019.
- Average wages will inch up to around 2.0% over the forecast period as low-paying jobs comprise an increasing share of total employment in the City.

City Economy: Real Estate Market Slow as Headwinds Expected to Persist, though Not Worsen



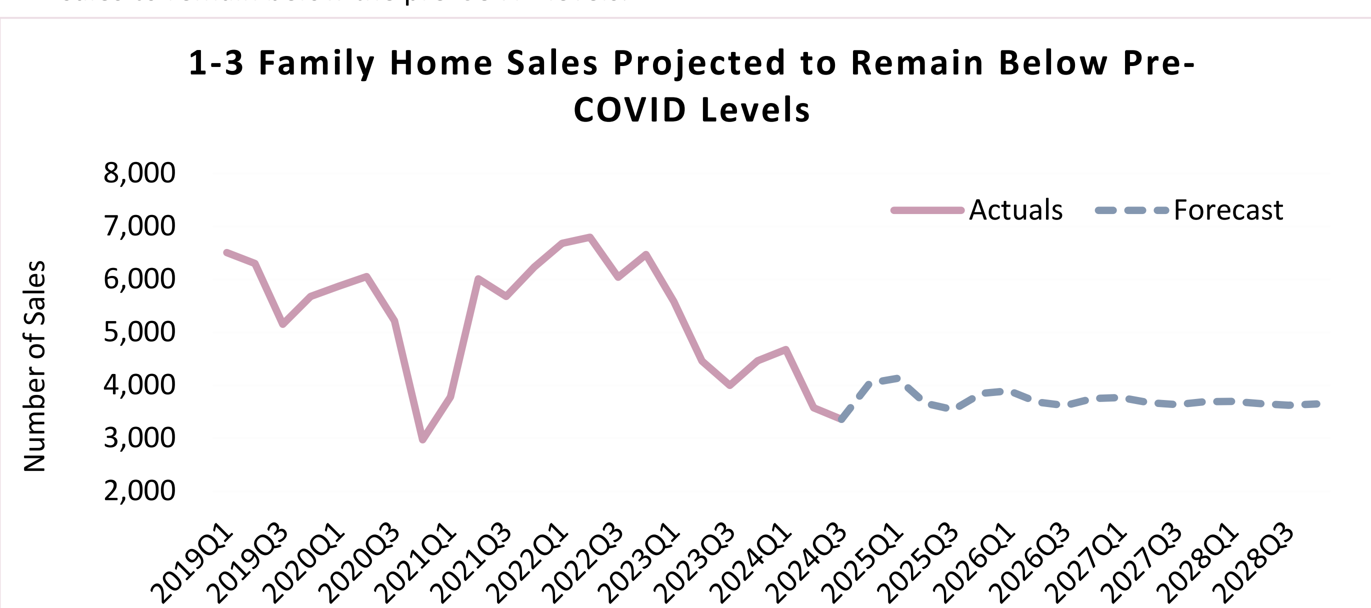
Source: Cushman & Wakefield, Council Finance

Office vacancy rate is expected to remain elevated, while high mortgage rates continue to plague single family home sales.

- Manhattan office vacancy rates have doubled since the pandemic, surging from 11% in 2019 Q4 to 23% at the end of 2023.

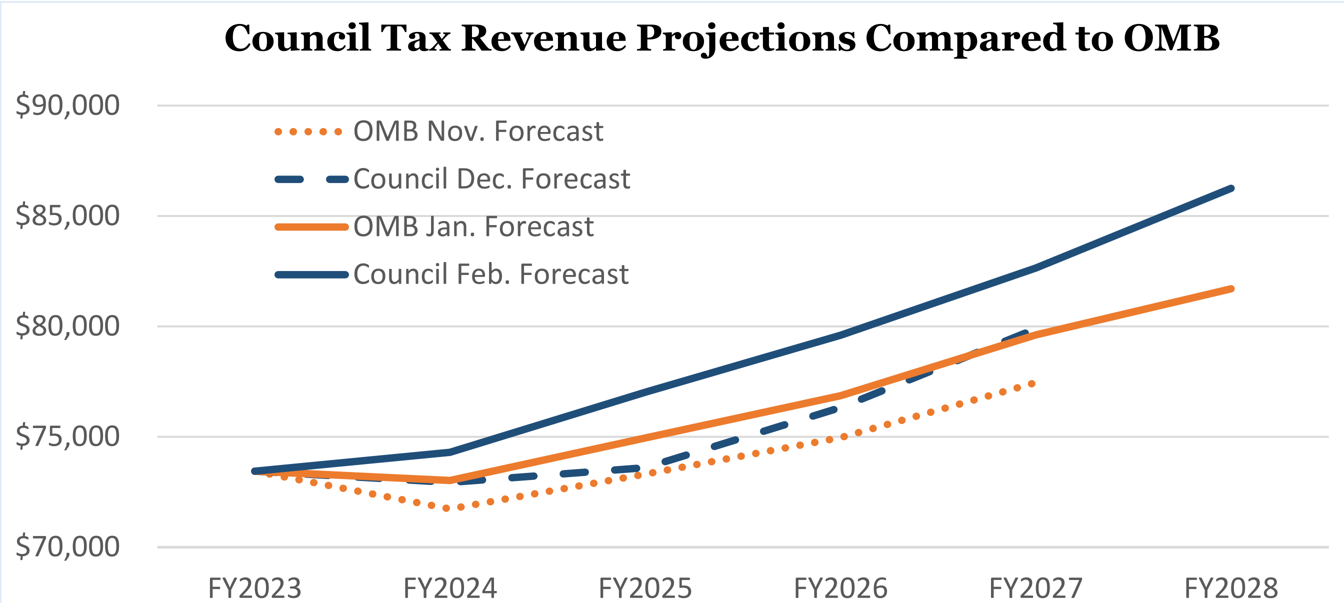
- The Council projects that the office vacancy rate will remain above 20% through the end of 2028, which will suppress office market value growth, and in turn the City's property taxes.

- High mortgage rates continue to dampen the sale of existing 1-3 family homes. The Council expects sales to remain below the pre-COVID levels.



Source: NYC Department of Finance, StreetEasy, Council Finance

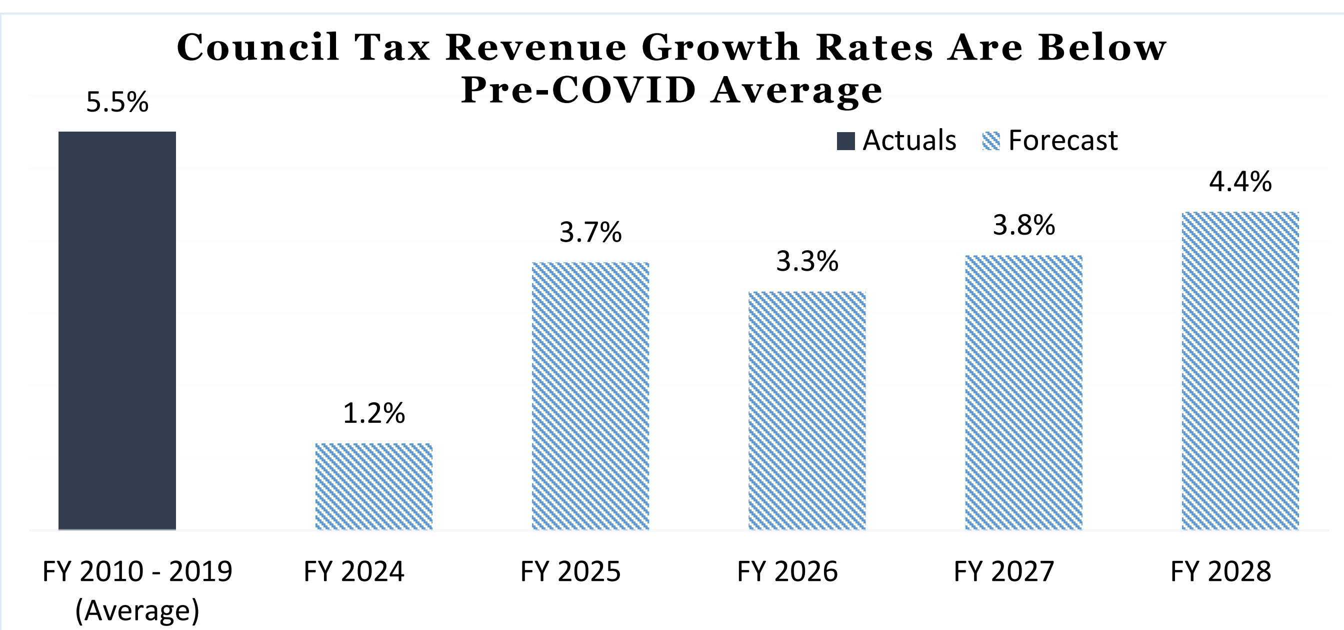
Council Tax Forecast: Stronger Collections Expected, Though Growth Will Remain Lower Than Historic Rates



Dollars in Millions

The Council has revised its tax revenue projections upwards. However, it still expects tax revenue growth rate to moderate compared to the last decade.

- Given the stronger economic outlook as of Feb-2023, the Council has raised its tax revenue forecast for Fiscal 2024 and 2025 by 1.9% and 4.6%, respectively.
- The upward adjustment increases the Council's forecast by $4.8 billion over the two fiscal years.
- The Council expects tax revenue growth to average 3.3% annually through the forecast period. That represents a significant slowdown in collections compared to the 5.5% growth the City experienced in Fiscal 2010 through 2019.



What is Driving the Council's Forecast?

The Council's forecast is being influenced by two major factors.

1. The Effects of a Slowing Economy

- **Personal Income Tax & Pass-Through Entity** – Decline in capital gains realization, as well as pass-through entity taxes and offsets returning to normal levels will drive down FY24 revenues. However, revenue growth will rebound close to the long run average in FY25 & beyond, as total wages strengthen and capital gain realizations stabilize.
- **Business Taxes** – Business corporation and unincorporated business taxes for Fiscal 2024 will be propelled by robust corporate profits and a resilient national economy. However, business tax revenues will grow at a moderate pace in Fiscal 2025 as business corporation taxes are affected by ongoing quantitative tightening. Overall, combined revenues from the two taxes will grow at a slower pace than the long run average.
- **Sales** – Higher interest rates have not yet slowed overall consumer activity that much, and higher prices mean that sales tax revenue is expected to be robust in Fiscal 2024 and 2025. However, sales tax revenue growth will soften in the outyears compared to the previous decade.

2. Real Estate Market Headwinds

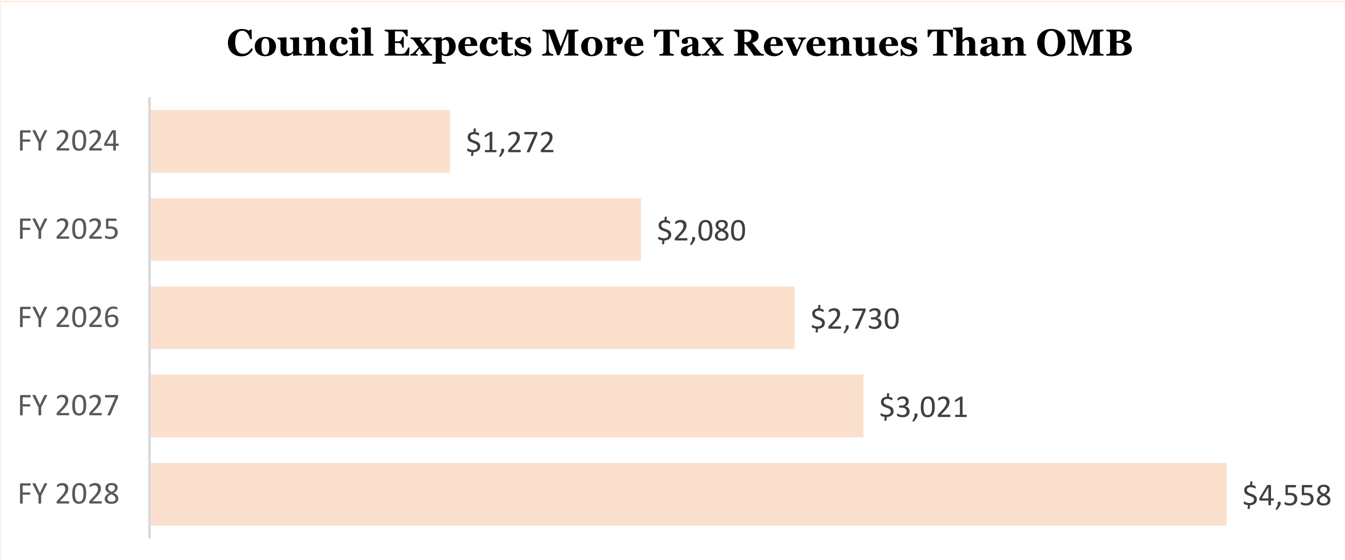
- **Property Tax:** The Council's forecast reflects baselined impact of FY25 Tentative Property Tax Assessment Roll increase that was released by DOF in January. Still, high office vacancy rate in Manhattan is expected to slow commercial market value growth.
- **Transfer Taxes:** Despite high home prices, collections will drop this fiscal year as high mortgage rates continue to push down sales volume before recovering as a response to anticipated rate declines starting in Fiscal 2025.

Council's February 2024 Tax Forecast

Tax	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Real Property	$32,779	$33,627	$34,421	$35,469	$37,297
Personal Income and PTET	16,514	17,536	18,306	19,392	20,338
Business Corporate	6,375	6,389	6,438	6,527	6,628
Unincorporated	2,761	2,872	2,993	3,106	3,237
Sales	10,041	10,539	11,084	11,528	11,989
Commercial Rent	927	942	956	976	1,002
Real Property Transfer	1,079	1,133	1,246	1,333	1,389
Mortgage Recording	557	640	726	809	817
Utility	404	403	411	429	459
Hotels	713	760	800	826	858
All Others	1,223	1,232	1,264	1,295	1,295
Audits	926	952	952	952	952
Total Taxes	**$74,300**	**$77,025**	**$79,598**	**$82,642**	**$86,261**

Dollars in Millions

The Council Expects $3.3 Billion More in Tax Revenues than OMB Over Fiscal 2024 and 2025



Dollars in Millions

The Council expects tax revenues to be stronger than OMB is projecting throughout the Plan years.

- For Fiscal 2024 and 2025, the Council forecasts almost $3.3 billion more in tax revenue than OMB.
- The difference is driven mainly by stronger personal income, business, property, and sales taxes.
- The difference between the Council and OMB grows to an average of $3.4 billion in the outyears.

Risks to the Council's Forecast

The factors below could boost or further weaken the Council's forecast going forward.

- **Monetary Policy & Inflationary Pressures:** This forecast assumes that the Federal Reserve will begin rate reductions some time in 2024 ensuring a soft landing, as inflation continues to decelerate. The timing of the rate cuts is crucial to achieve that goal.
- **Consumer Sentiment:** Consumer spending is expected to moderate as high interest rates slow the economy. However, a drastic drop in consumer sentiment or continued strong consumer sentiment would impact the Council's forecast.
- **Commercial Real Estate:** The Council's forecast projects that the office vacancies have begun to stabilize, albeit at a high level. However, any sudden worsening or improvement in office vacancies would impact the outlook of commercial market values and associated property tax assessments.
- **Global Conflicts:** The impact on commodity prices of conflicts in the Middle East and Ukraine remain largely contained. However, a major escalation in either conflict could pose a major downward risk as they could disrupt energy and financial markets.