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Economic and Tax Revenue Forecast

PREPARED BY

Revenue & Economics Unit

Richard Lee
DIRECTOR

Jonathan Rosenberg
MANAGING DIRECTOR

Emre Edev
DEPUTY DIRECTOR

Dilara Dimnaku
CHIEF ECONOMIST,
ASSISTANT DEPUTY
DIRECTOR

Paul Sturm
ASSISTANT DIRECTOR

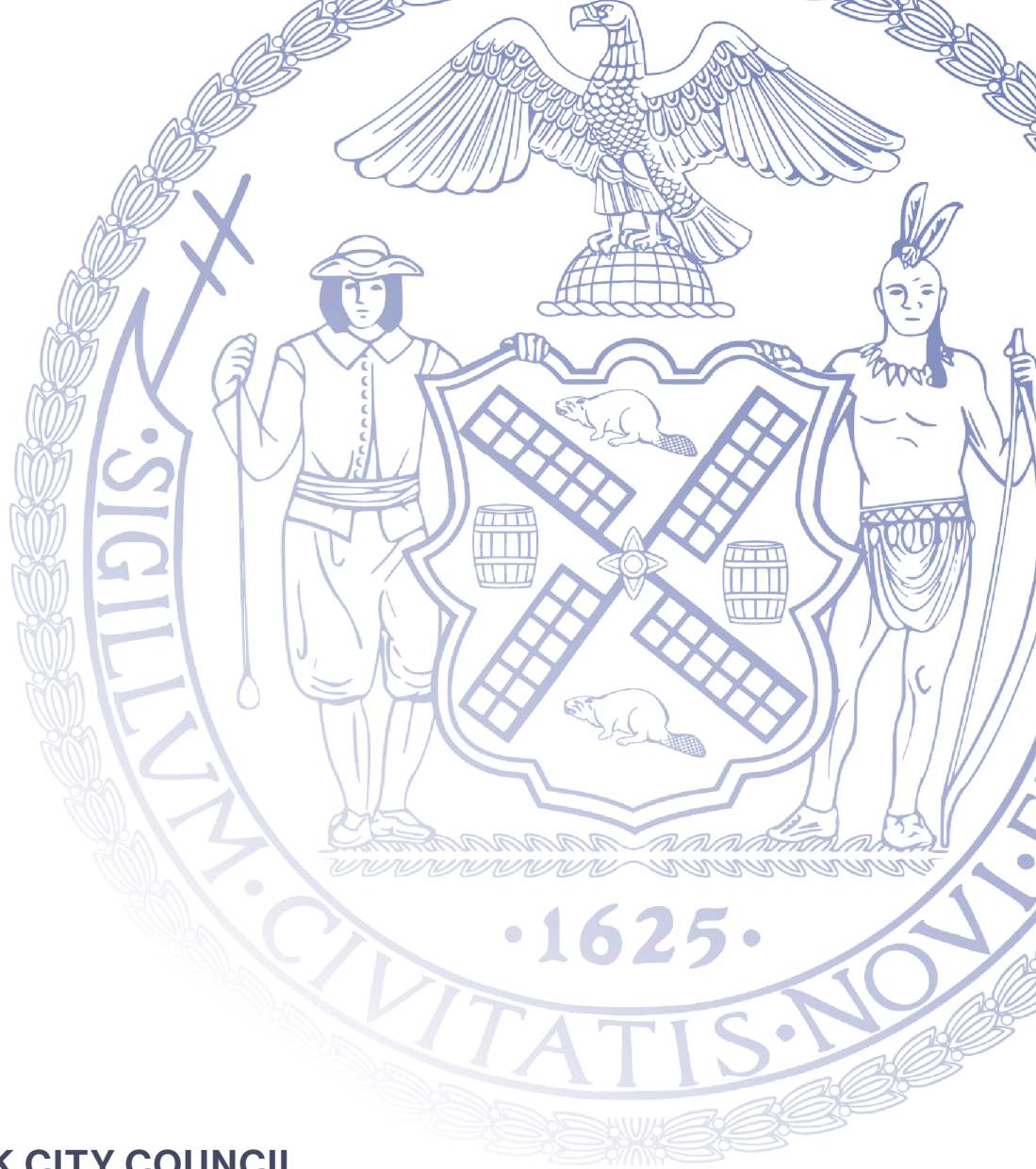
Andrew Wilber
ASSISTANT DIRECTOR

Hector German
SENIOR ECONOMIST

Vincent Giordano
ECONOMIST

Lyle Reed
ECONOMIST





ABOUT NEW YORK CITY COUNCIL FINANCE DIVISION

The Council's Finance Division is a team of analysts, attorneys, economists, and administrative staff who provide Council Members with research on budgetary actions and their fiscal impact. They also work with Council Members to monitor and evaluate agency spending.

Learn more at council.nyc.gov/budget

Overview

> **The Council’s current economic outlook sees further strength in the economy**

Economic activity is expected to increase compared to Council’s November forecast driven mainly by the added strength in the consumption and non-residential fixed investment. Stock market gains, business investment in AI and intellectual property products and high-income households’ spending continue to contribute to the economic expansion.

> **The Council’s tax revenue forecast improved since November reflecting a healthier annual pace of 4.7 percent.**

Current projections are still lagging in comparison with the previous expansion between 2010 and 2019,* when tax revenues grew at an annual average rate of 5.5 percent.

> **The Council projects \$176 million less tax revenue than OMB in FY26 and \$562 million more in FY27.**

Both OMB and the Council undertook a full reforecast of economy and taxes. OMB’s preliminary plan shows tax revenues will grow at an average annual rate of 4.0 percent over the plan period.

Calendar Year 2026 Economic Indicators Forecast

*YoY= Year-over-Year

**HEADLINE
INFLATION**

2.5%

**FEDERAL
FUNDS RATE**

3.4%

REAL GDP/GCP

US: 2.5% YoY*
NYC: 2.4% YoY

**UNEMPLOYMENT
RATE**

US: 4.7%
NYC: 5.2%

**PRIVATE
EMPLOYMENT**

US: 0.6% YoY
NYC: 0.8% YoY

*NOTE: Years referenced throughout the report reflect calendar years unless specified as fiscal year.

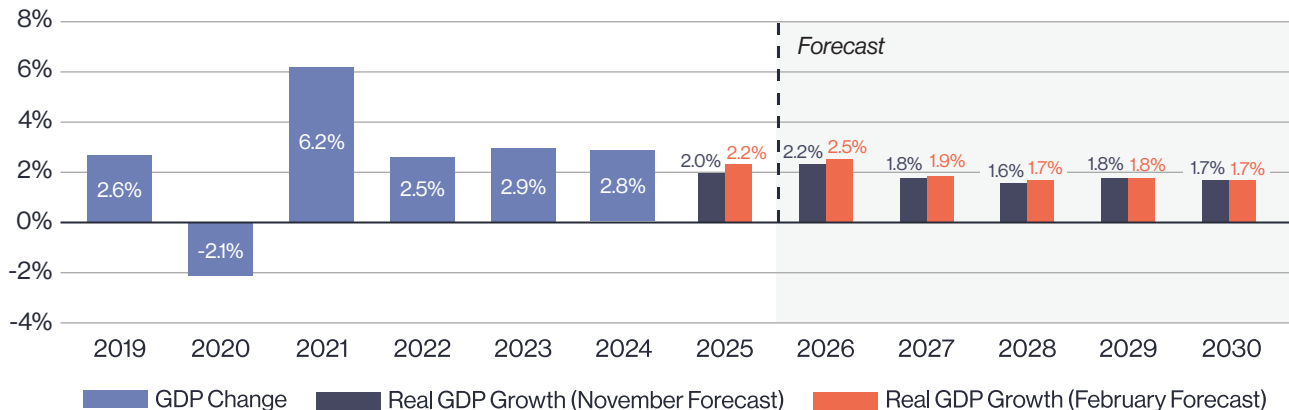
NATIONAL ECONOMY

Current Economic Activity Showing Robust Growth

- National economy continued to expand with real GDP on a solid footing rising 4.4 percent in the third quarter of 2025, followed by 1.4 percent growth in the fourth quarter of 2025 based on advance estimate by Bureau of Economic Analysis.
- Federal government shutdown in October and November shifted some of the government spending from last quarter of 2025 to first quarter of 2026.
- Real final sales to private domestic purchasers, which includes the total consumer spending and gross fixed investment, has been the main contributor to the economic activity with 2.4 percent growth in the fourth quarter of 2025.
- Consumption continue to be driven by the steady wage and salary earnings along with the strong capital gains realization; though consumer spending is still highly concentrated in demand from high-income consumers, while low-income households are pressured by the elevated prices.
- Business investment spending increases in AI and information processing with gross private domestic investment contributing close to 0.7 percentage points to the real GDP in the fourth quarter of 2025.
- January payroll employment showing some signs of stabilization registering 130,000 additional jobs, slight acceleration since November when there was a gain of only 41,000 jobs. Unemployment rate inched up to 4.3 percent in January compared to 4.0 percent a year ago.
- Following three consecutive federal funds rate cuts, the Federal Reserve kept policy interest rates unchanged in January.
- Headline consumer price index (CPI) rose by 2.4 percent and core CPI excluding volatile food and energy prices rose by 2.5 percent year over year in January, still running above the Fed's inflation target.

FIGURE 1

U.S. Real GDP Change



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

Going forward, the Council expects economic activity to expand at an improved pace.

- The Council anticipates real GDP to grow at 2.5 percent in 2026, followed by 1.9 percent in 2027 due to expected increase in government spending shifts from prior quarter, consumption and business investment.
- Growth in real personal consumption expenditures is expected to stay above 2.5 percent in 2026, driven mainly by demand from high income consumers, suggesting a one-sided growth in economic activity going forward, while low and middle-income households continue to feel pressures of elevated prices.
- Payroll employment will continue to grow modestly and the unemployment rate is expected to increase slightly to 4.7 percent in 2026 then gradually declining to 4.3 percent by the second half of 2029.
- The Federal Reserve is expected to reduce the current policy rates further in 2026 resuming rate reduction in the second half of 2026 as economic activity moderates and unemployment starts to pick up.
- The Federal Reserve is anticipated to keep the policy rate around 3.1 percent throughout the forecast period which will keep economic growth below its long run average.
- Inflation, as measured by the Core Consumer Price Index (excluding volatile energy and food prices), is expected to reflect further price adjustments in 2026, before it starts to gradually decline to 2.3 percent by end of 2028 from its current 2.5 percent level.

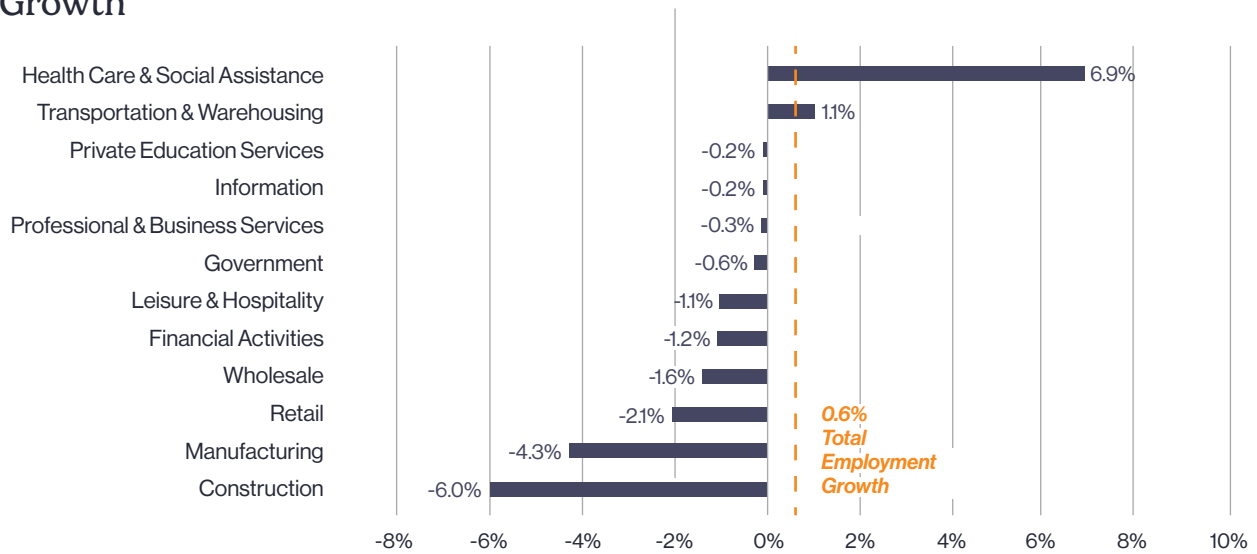
CITY ECONOMY

NYC Economy Remains Resilient with Continued Growth

- Total payroll employment in the City grew by 30,100 positions, a 0.6 percent increase as of December year-over-year, slower than in prior years. During the last expansion from 2010 to 2019, average annual employment growth was 2.2 percent.
- The major driver of employment growth has continued to be in sectors that on average pay low wages. Home healthcare and social assistance, classified within health care and social assistance, remain the fastest growing sub-sector adding 53,000 positions. Excluding those two subsectors, total employment declined by 22,900.
- The average wages paid in the City grew by a robust 5.9 percent annually in the last reported four quarters as of third quarter of 2025, reaching \$123,900. The securities industry particularly saw its average wage climb by 12.9 percent to \$554,700.
- City's real estate market showing signs of improvement, with robust commercial leasing activity and gradually descending Manhattan office vacancy rates. Residential real estate sale prices continue to increase while sales volume have risen modestly.

FIGURE 2

NYC Sector Comparison: December 2024 to December 2025 Employment Growth



SOURCE: NY State Department of Labor, Current Employment Statistics, December 2025

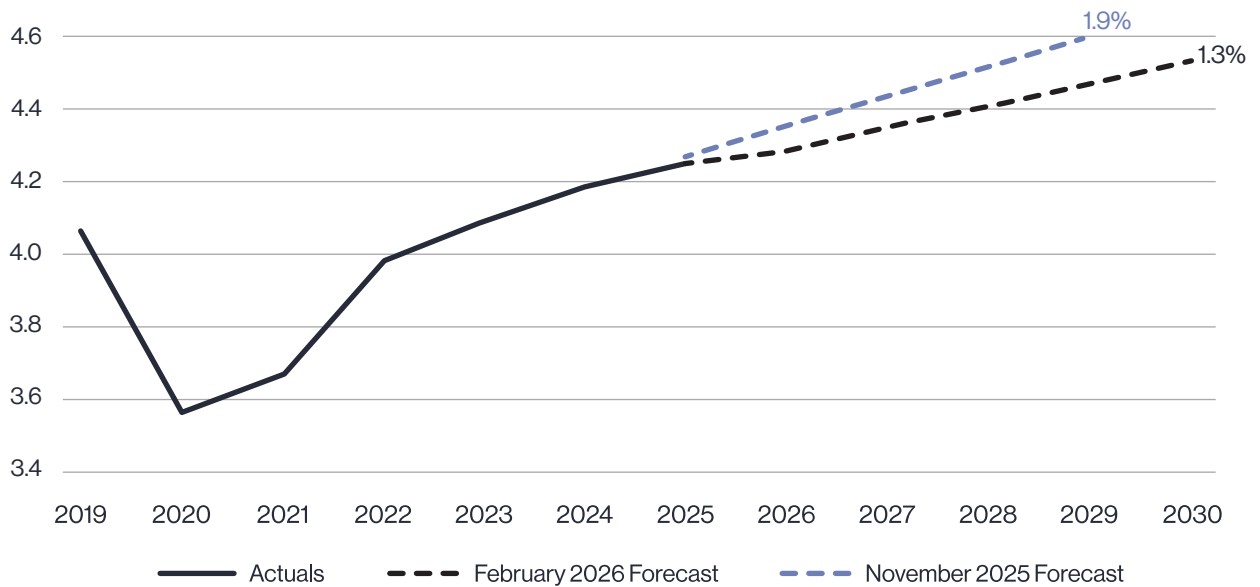
■ % Change Year-over-Year

Council’s City employment growth projection revised to reflect weaker job growth since November forecast.

- Private sector payroll employment in the City is expected to grow at a modest annual average of 1.3 percent from 2026 to 2030.
- In the previous expansion from 2010 to 2019, employment climbed by an annual average of 2.6 percent.
- Council’s forecast projects employment to start rebounding in late 2026. Business services and other sectors are expected to resume positive growth backfilling open positions as the U.S. economy continues to expand, though more moderately. However, lackluster job growth is anticipated through 2030.
- Manhattan office vacancies are expected to continue to gradually decline, aided by strong leasing activity in Class A office space, increasing office to residential space conversions and the limited construction pipeline.

FIGURE 3

Private Sector Payroll Employment Levels in NYC (Millions)



SOURCE: NY State Department of Labor, Council Finance Division

COUNCIL TAX FORECAST

Stronger than its November Forecast

The Council’s forecast recognizes \$172.5 billion of tax revenue in Fiscals 2026 and 2027, \$4.3 billion greater than it did in November.

- The Council expects tax revenue growth to average 4.7 percent annually through the forecast period, with higher revenues in all five years.
- Higher tax revenue projections are mainly due to the solid personal income tax revenue growth, business corporation tax decoupling from the federal tax provisions of the OBBBA and improved real estate transaction taxes.
- Despite the improvement from November, the current forecast still represents slower growth in collections compared to the 5.5 percent average annual tax revenue growth the City experienced in Fiscal 2010 through 2019.

FIGURE 4

New York City Council’s February 2026 Tax Forecast

TAX (MILLIONS)	FY2026	FY2027	FY2028	FY2029	FY2030
REAL PROPERTY	\$35,319	\$37,373	\$38,798	\$40,427	\$42,197
PERSONAL INCOME AND PTET	\$20,372	\$21,226	\$21,607	\$22,027	\$22,828
BUSINESS CORPORATE*	\$6,561	\$7,331	\$7,652	\$7,371	\$7,528
UNINCORPORATED	\$3,544	\$3,611	\$3,745	\$3,887	\$4,038
SALES	\$10,885	\$11,320	\$11,838	\$12,238	\$12,646
COMMERCIAL RENT	\$955	\$974	\$995	\$1,013	\$1,033
REAL PROPERTY TRANSFER	\$1,490	\$1,541	\$1,584	\$1,646	\$1,698
MORTGAGE RECORDING	\$1,012	\$1,064	\$1,086	\$1,094	\$1,088
UTILITY	\$515	\$538	\$561	\$578	\$596
HOTELS	\$817	\$884	\$896	\$918	\$939
ALL OTHERS	\$1,500	\$1,380	\$1,398	\$1,414	\$1,424
AUDITS	\$1,042	\$1,012	\$1,037	\$1,063	\$1,090
STATE TAX PROGRAMS**	\$147	\$86	\$42	(\$78)	(\$82)
TOTAL TAXES ***	\$84,159	\$88,340	\$91,239	\$93,598	\$97,023

NOTES: *NY State’s Decoupling from Federal Business Tax Changes is included within Business Corporate Tax forecast; ** State tax programs include Elimination of Income Tax on Tipped Wages , Distressed Hospital Sales Tax Intercept Reversal, SCRIE/DRIE income threshold increase, and sales tax exemption on vending machines; ***Council’s tax forecast does not include Mayor’s proposed Property Tax Rate Increase; Totals may not add up due to rounding.

Although the Council projects improved tax growth in all forecast years, it still expects \$176 million less tax revenue collections than OMB in Fiscal 2026.

- The comparison is not strictly 'apples to apples' because OMB's revenue update was based on December collections, compared to the Council's updated economic and tax forecast based on most recent available data in February.
- The largest share of the additional tax revenue expected by the Council comes from personal income, and real property transaction taxes.

FIGURE 5

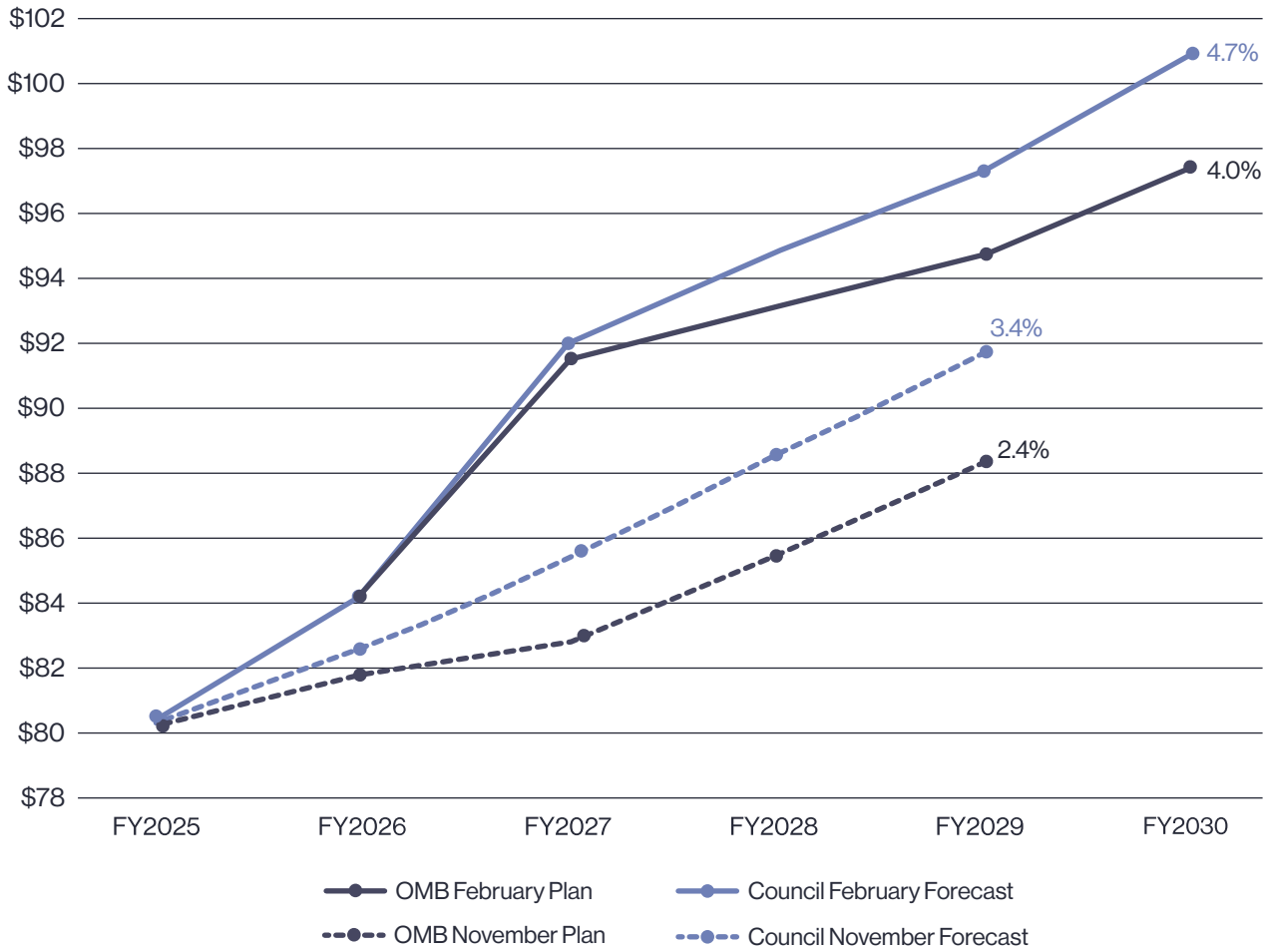
Differences between Council's February 2026 Tax Forecast and OMB Preliminary Budget

TAX (MILLIONS)	FY2026	FY2027	FY2028	FY2029	FY2030
REAL PROPERTY	(\$42)	\$724	\$1,045	\$1,559	\$2,028
PERSONAL INCOME AND PTET	\$89	(71)	\$258	\$321	\$531
BUSINESS	(\$365)	(\$132)	\$422	\$754	\$861
SALES	\$17	(\$112)	(\$138)	(\$289)	(\$326)
OTHER REAL ESTATE TAXES	\$19	\$4	\$5	\$67	\$93
ALL OTHER TAXES AND AUDITS	\$106	\$149	\$164	\$198	\$246
TOTAL TAXES	(\$176)	\$562	\$1,757	\$2,609	\$3,433

NOTE: Totals may not add up due to rounding.

FIGURE 6

Comparison of Council and OMB's Previous Two Tax Forecasts Total Tax Revenue (Billions)



What Changed in the Council's Forecast?

The Council's current tax forecast recognizes more revenue than its November projections, incorporating recent collection trends for individual taxes and forecasted updates based on available economic data. Revisions were largely in the following taxes:

Personal Income Tax and Pass-Through-Entity-Tax (PIT/PTET):

- Income taxes are volatile, making it harder to gauge performance, despite that, wage growth has remained robust and recent economic and collections data reveal stronger outlook as higher capital gains realization, Wall Street bonuses and wage growth continue to raise PIT forecast.
- Heightened volatility and moderate job growth will result in out year PIT growing below long-run levels.

Business Taxes

- Following six years of steep growth, business corporation tax flattened in 2025.
- Year to date collections continue to show weakness attributed partially to the federal corporate tax provision changes limiting the taxable business income.
- Council's forecast is revised to account for this federal fiscal policy impact and elevated volatility for FY26.
- Council's projections assume improved outlook for FY27 forward as some of the lost business tax revenue will be recouped in FY27 and FY28 due to NY State decoupling from the OBBBA business income definitions, followed by growth in corporate profits starting to pick up in FY29.

Property Tax

- Council's property tax forecast reflects recent collections and uncollectible reserves updates. In addition, FY27 levy forecast is updated based on the tentative assessment roll that was published mid-January by the City's Department of Finance.
- Lien sale revenue impact has also shifted from FY26 to FY27 to reflect no lien sale activity in FY26.

Real Property Transaction Taxes

- Collections in transfer taxes increased mainly due to recent acceleration in commercial real estate transfers. Office market continues to improve with strong leasing activity and declining vacancy rates raising Council's forecast for FY26.
- Mortgage recording tax also registered higher collections driven by moderate gains in residential property sales and the elevated mortgage rates placing upward pressure on prices.

Sales Tax

- The sales tax is anticipated to be slightly higher each fiscal year compared to the Council's November forecast, in part due to sustained strong monthly tax collections above FY25 levels and stable projected retail sales growth.
- The FIFA World Cup is expected to temporarily raise FY27 tax revenues above normal levels.

Hotel Tax

- The hotel tax is projected to be moderately lower each fiscal year compared to the prior forecast, due to expected moderation in foreign tourism from many European countries and Canada.
- Similar to the sales tax, the FIFA World Cup is expected to raise FY27 revenues above normal levels, though this increase is temporary.

Tax Policy Changes

- Council's tax forecast assumes the following State actions to be enacted prior to the budget adoption
 - NY State's Decoupling from Federal Business Tax Changes,
 - Elimination of Income Tax on Tipped Wages,
 - Distressed Hospital Sales Tax Intercept Reversal,
 - SCRIE/DRIE income threshold increase, and
 - Sales tax exemption on vending machines
- Council's tax forecast projections do not include Mayor's proposed Property Tax Rate Increase

Audits

- Council's tax audit revenue projections increased to reflect the latest uptick in collections stemming mainly from business corporate tax audits.



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