Economic & Tax Revenue Forecast Update
Fiscal 2024 November Plan
New York City Council Finance Division

Revenue & Economics Unit

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Forecast Overview

Slow Economic Growth

After stronger than expected economic growth, National & City economies are expected to enter a period of slow growth over the next two years.

Leads to Slow Growth in Tax Revenues

The slow economic growth results in slow growth in tax revenue for Fiscal 2024 & Fiscal 2025, before resuming more robust levels in Fiscal 2026.

But More Money than OMB's Forecast

Despite slow tax growth, the Council expects $1.5 billion more than OMB over Fiscal 2024 & Fiscal 2025.

National Economy: The U.S. Economy Will Continue to Slow Down

CY 2024 Forecast

Inflation Rate
U.S.(Headline): 2.7%
U.S.(Core): 3.2%
NYC(Headline): 2.3%

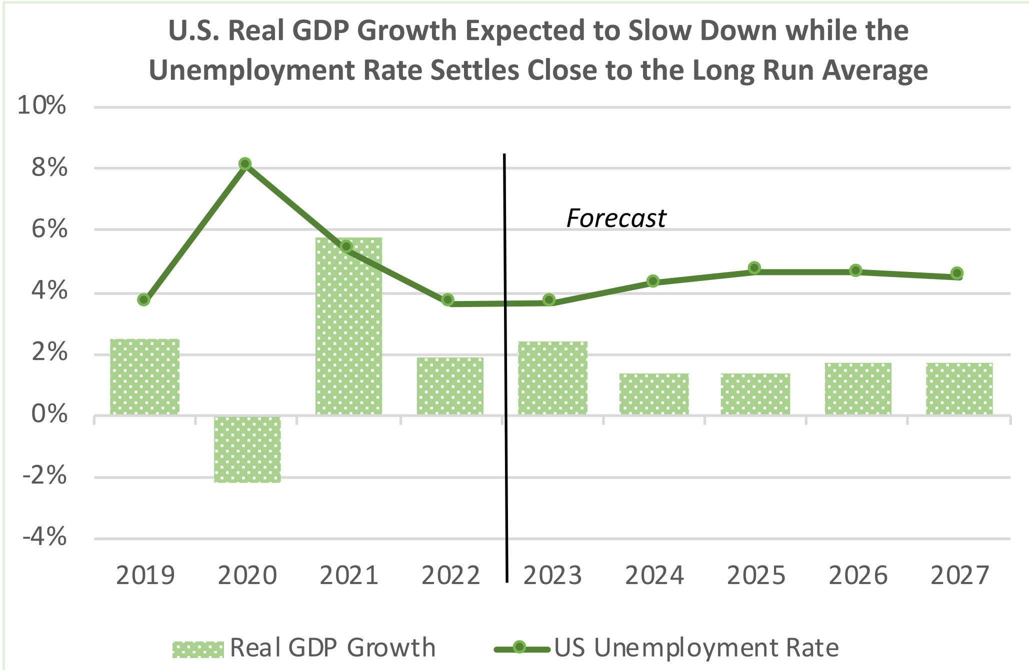
Fed. Funds Rate
5.4%

Real GDP/GCP
U.S.: +1.4% YoY*
NYC: +0.6% YoY*

Private Employment
U.S.: +0.5 YoY
NYC: +1.0% YoY

Unemployment Rate
U.S.: 4.3%
NYC: 6.0%

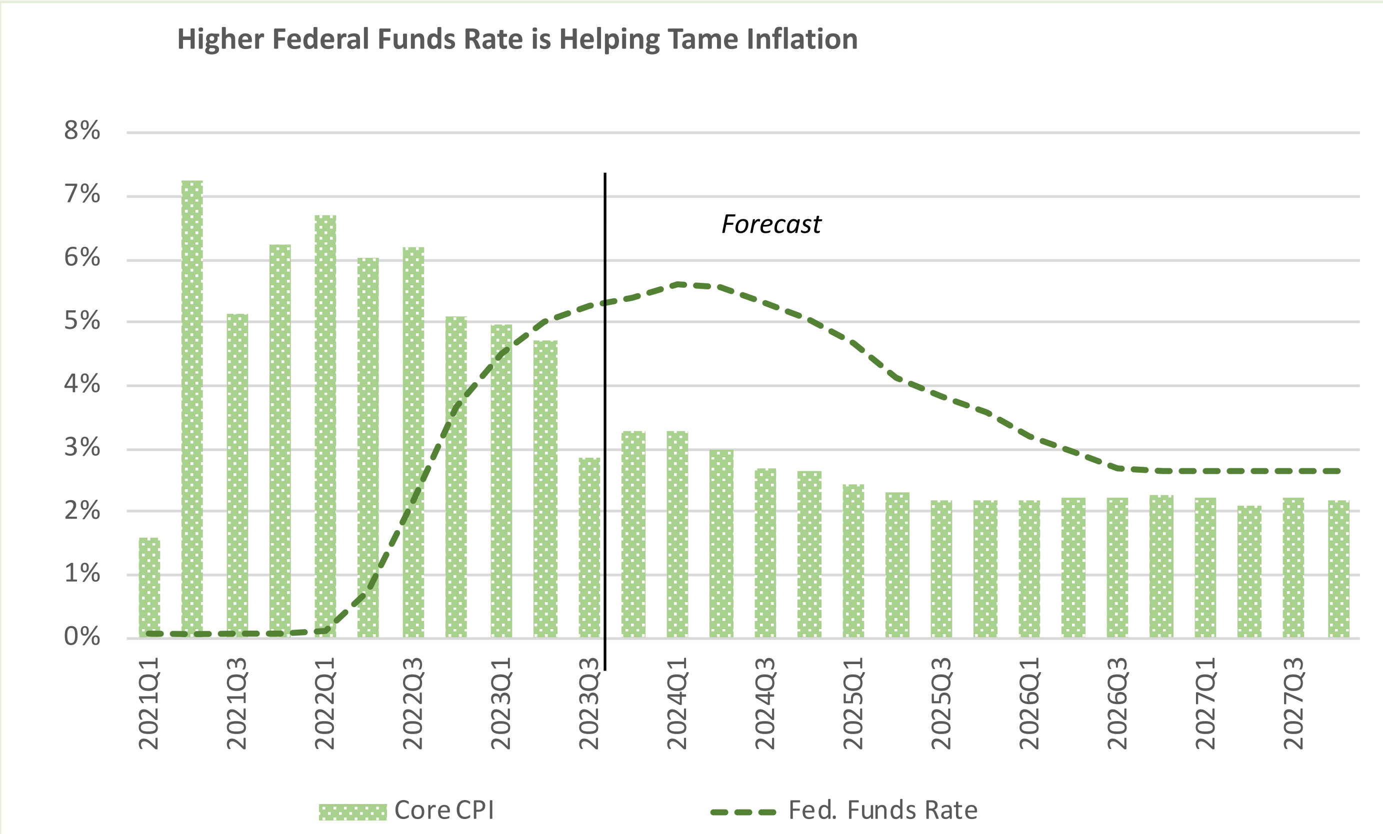
*YoY: year over year change



The national economy has started to show signs of slower growth as higher-for-longer interest rates begin to take a toll.

- Real GDP grew by a remarkable 5.2% in 2023 Q3, driven by an unexpected surge in consumer spending through August.
- At the same time, the easing of supply chain bottlenecks and the Federal Reserve's tightening of monetary policy helped drive down inflation.
- However, as of October, economic activity began to cool in various areas
    - Consumer spending growth slowed from 0.7% to 0.2% in October.
    - Retail sales fell (- 0.2%) for the first time in seven months in October.
    - The unemployment rate ticked up from 3.8% to 3.9% in October.

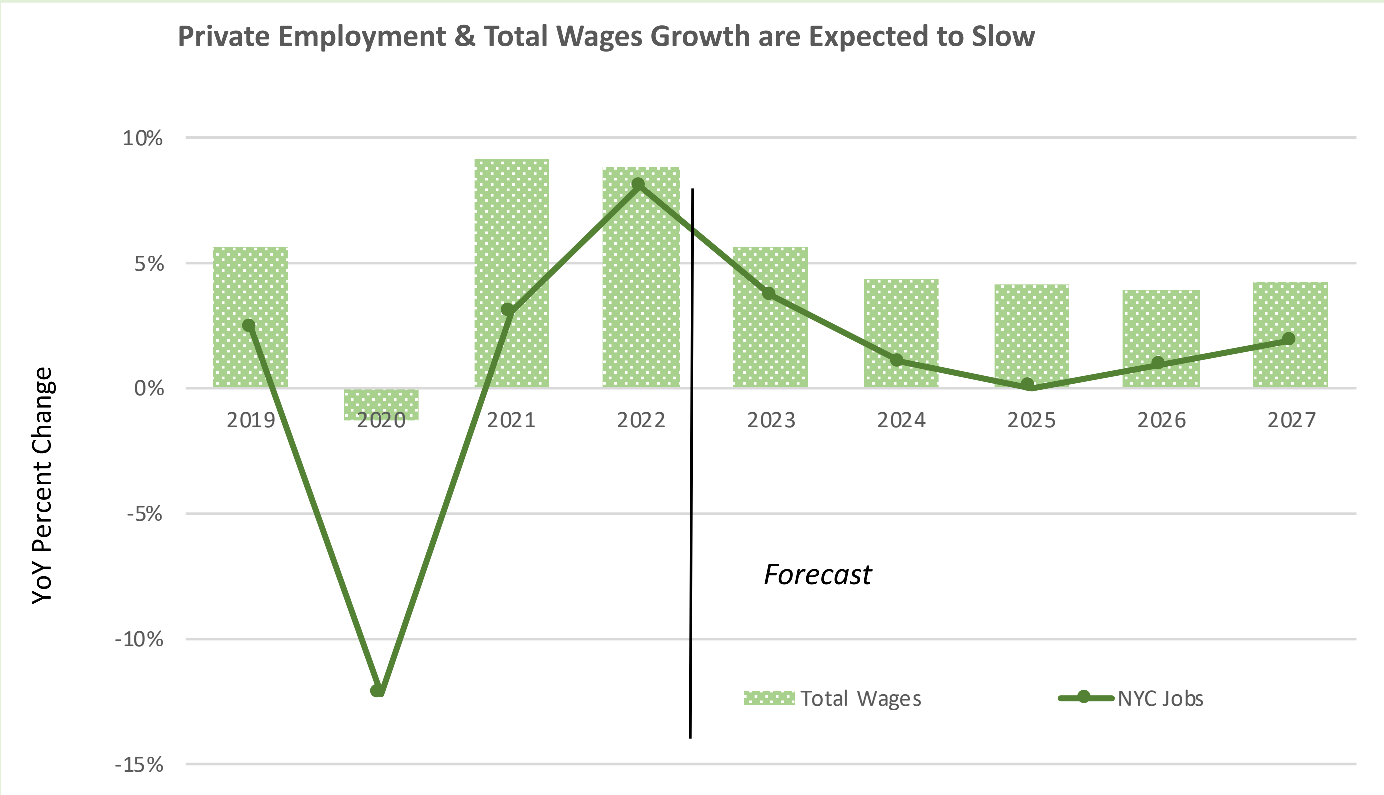
National Economy: The U.S. Economy Will Continue to Slow Down



Going forward, the Council expects slower economic growth and loosening in labor market.

- Core inflation is expected to decelerate gradually as higher wage fuels spending.
- As a result, the Fed may need to intervene with one more rate hike in order to bring inflation down to its 2% target level.
- The higher rates will cause real GDP growth to decelerate to 1.1% in 2023 Q4, before averaging a meager 1.4% growth in 2024.
- The labor market will continue to loosen with rising unemployment rate peaking at 4.7% in 2025.

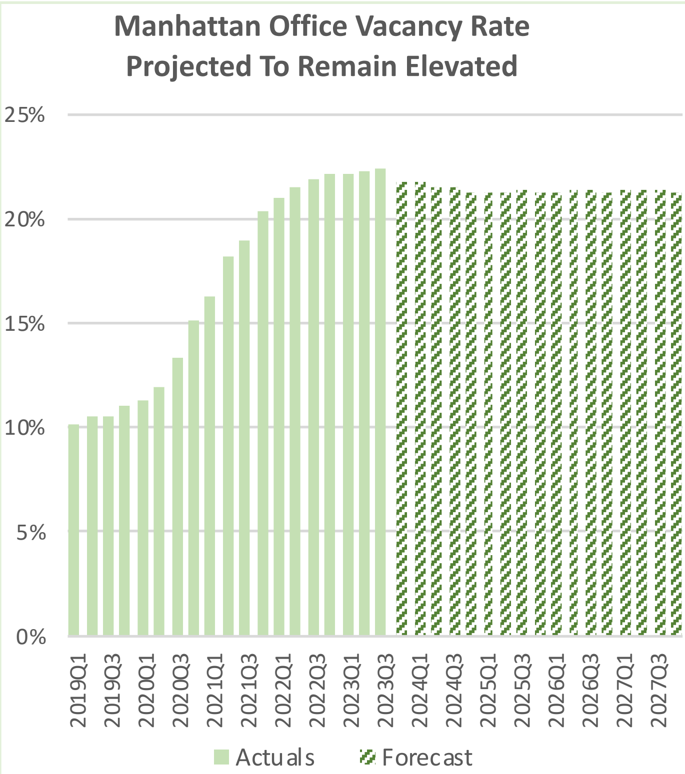
City Economy: NYC Economy is Also Expected to Cool Down



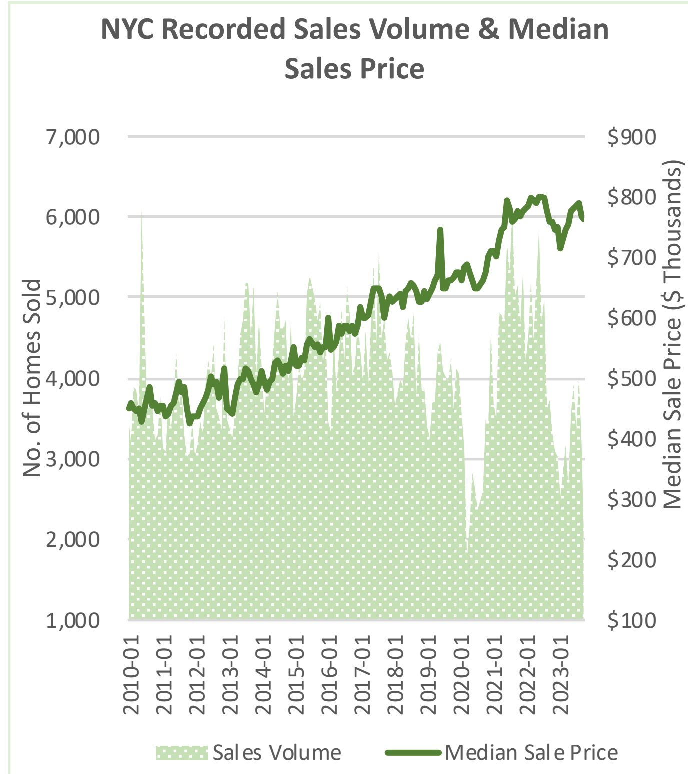
Similar to the national economy, the City economy remains robust but has started to show signs of cooling down.

- Total employment growth has softened recently with October growing only 2% over the past year. The Federal Reserve reports that labor demand has softened while worker availability has improved.
- Wage growth also remains modest.
- While consumer spending started to moderate, tourism in the City continues to climb towards pre-pandemic levels.
- Hotel occupancy rates in NYC remain higher than other major cities.
- Manhattan office vacancy rates have more than doubled since the beginning of COVID, creating a drag on the real estate market.

City Economy: NYC Economy is Also Expected to Cool Down



Source: Cushman & Wakefield; Council Finance Division

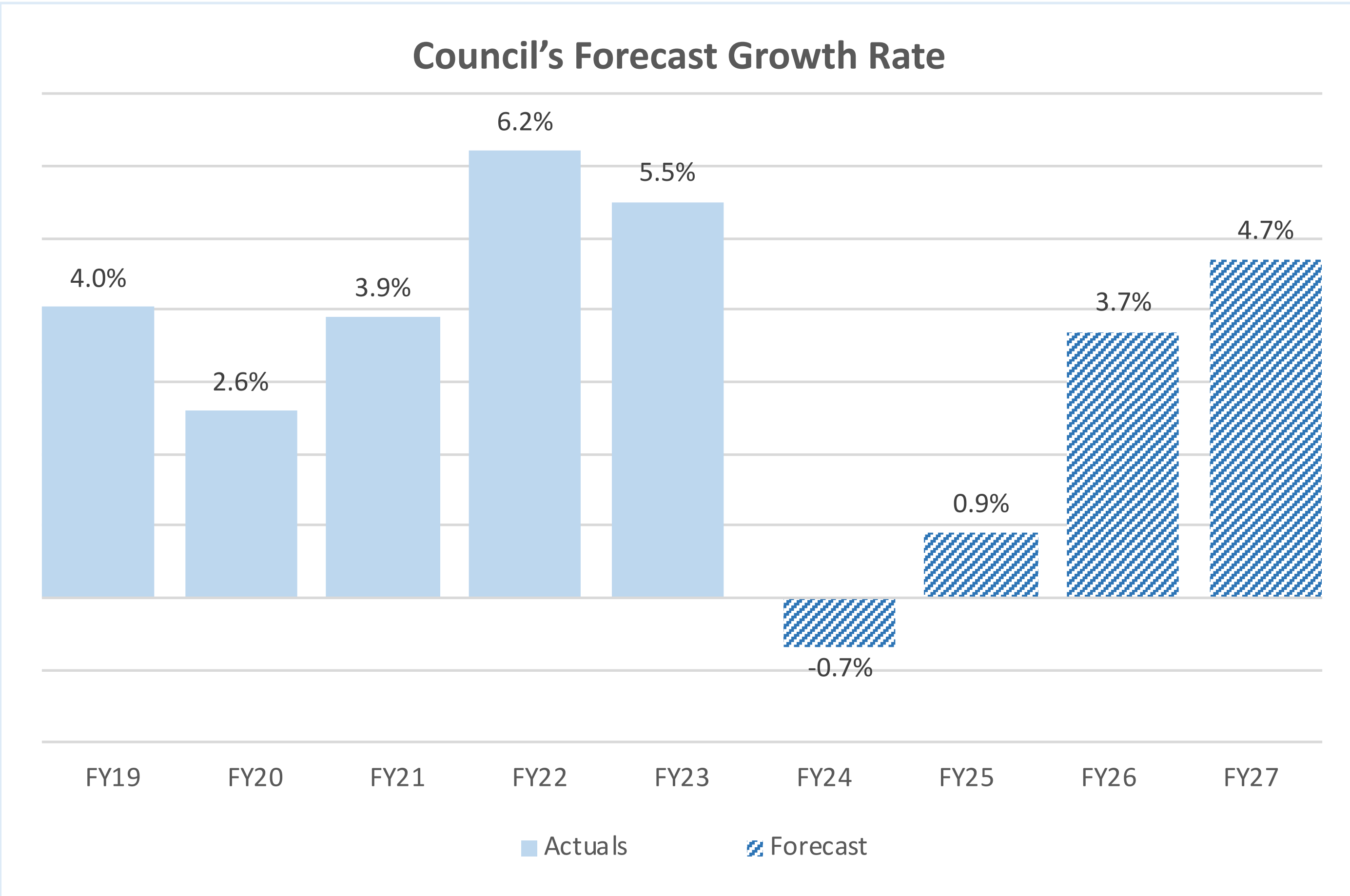


Source: StreetEasy

Looking ahead, the Council expects the City's labor market to loosen further with slower growth in job openings and wages.

- Total private sector jobs growth in the City will decelerate from 8.1% in 2022 to 3.7% in 2023. Job growth will slow to one percent in 2024 and flatten in 2025, driven by higher interest rates.
- Total wages are expected to continue to grow, albeit at a slower pace.
- The Finance Division expects the office vacancy rate to remain above 20% throughout the forecast period, which will suppress office market value growth, and in turn the City's property taxes.
- Residential housing market starting to show weakness as higher mortgage rates slow existing home sales.

Council Tax Forecast: Weak Tax Collections Over the Next Two Years



The Council expects tax revenue growth to slow in the first two years of the Plan

- Tax revenues to decline by seven-tenths of a percent in Fiscal 2024, something that has happened only three times in the past four decades.
- Collections will then rebound with a tepid 0.9% growth in Fiscal 2025, with more robust levels returning in the last two years of the plan.
- The projected weakness in the first two years of the Plan can be attributed to the expected slowdown in economic growth.

Council Tax Forecast: Weak Tax Collections Over the Next Two Years

Council November 2023 Tax Forecast	FY24	FY25	FY26	FY27
Real Property	$32,779	$32,787	$33,725	$35,613
Personal Income & PTET	15,821	16,181	17,095	17,772
Business Corporate	5,491	5,248	5,215	5,295
Unincorporated	2,616	2,571	2,649	2,733
Sales	9,959	10,247	10,784	11,401
Commercial Rent	926	942	953	962
Real Property Transfer	1,331	1,431	1,522	1,600
Mortgage Recording	781	905	983	1,030
Utility	414	429	444	460
Hotels	681	723	775	824
All Others	1,233	1,243	1,276	1,307
Audits	900	900	900	900
Total Taxes	**$72,931**	**$73,608**	**$76,321**	**$79,898**

Dollars in Millions

What is Driving the Council's Tax Revenue Forecast

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

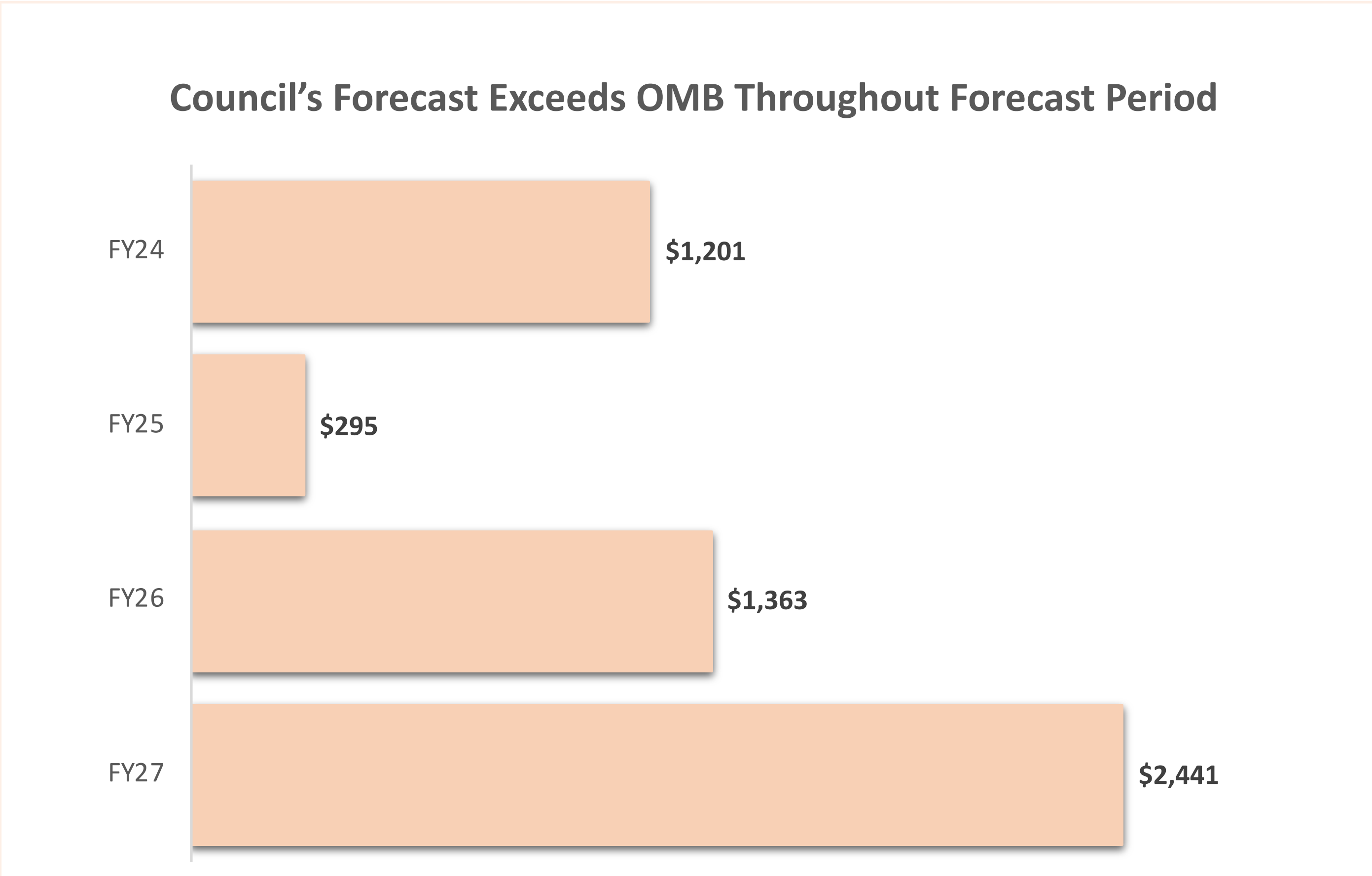
1. The Effects of a Slowing Economy

- **Income Taxes:** Following an unexpected increase in collections last fiscal year, personal and business income taxes will retreat in FY24, driven by reduced capital gains realizations and business income.
- **Sales Tax:** Higher interest rates are expected to dampen consumer activity going forward, causing collections to slowdown.

2. Real Estate Market Headwinds

- **Property Tax:** High office vacancy rate in Manhattan will slow commercial market value growth.
- **Transfer Taxes:** Despite high home prices, collections will drop this fiscal year as high mortgage rates will push down sales volume before recovering in Fiscal 2025.

The Council Expects More Tax Revenues than OMB

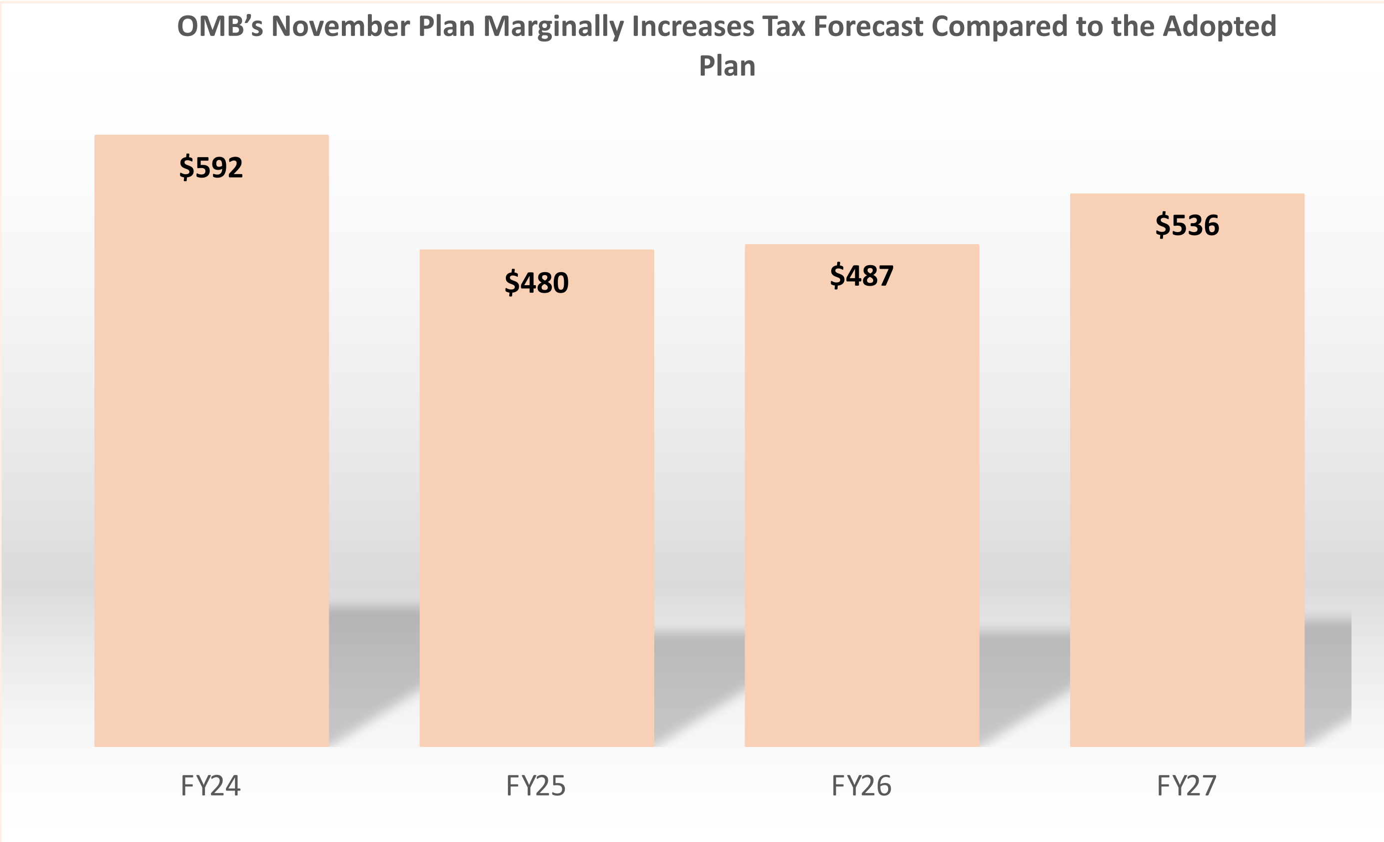


Dollars in Millions

Although the Council projects weaker than normal tax growth, it still expects more tax revenues than OMB.

- For Fiscal 2024 and 2025, the Council forecasts almost $1.5 billion more in tax revenue than OMB.
- The difference is driven mainly by stronger personal income, property, business and sales taxes.
- The difference between the Council and OMB grows to $1.4 billion in Fiscal 2026 and $2.4 billion in Fiscal 2027.

OMB's Tax Revenue Changes Since Adoption



Dollars in Millions

OMB's November Revenue Plan includes only minor adjustments and does not appear to reflect more recent economic data.

- Reflecting stronger than expected actual collections, OMB raised its tax revenue forecast by $592 million in Fiscal 2024.
- The only changes to Fiscals 2025 to 2027 were to reflect higher than expected assessments in the final Property Assessment Roll released in May 2023
- OMB has not made any economic adjustment to its tax revenue forecast since the Executive Plan released in May. But for these collections-related adjustments, the November forecast would be the same as the May forecast.

Risks to the Council’s Forecast

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

- **Fiscal Policy:** The current forecast assumes a stable fiscal policy with shutdowns and defaults avoided for now. Any change in that scenario in the future could negatively affect the forecast.
- **Consumer Sentiment:** Consumers are expected to moderate their spending as higher 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, should office vacancies worsen or improve quickly, this would impact the outlook of commercial market values & 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.

Prepared by: William Kyeremateng – Revenue and Economics Unit