



New York City Council
Finance Division

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MAY 2024

Economic and Tax Revenue Forecast

PREPARED BY

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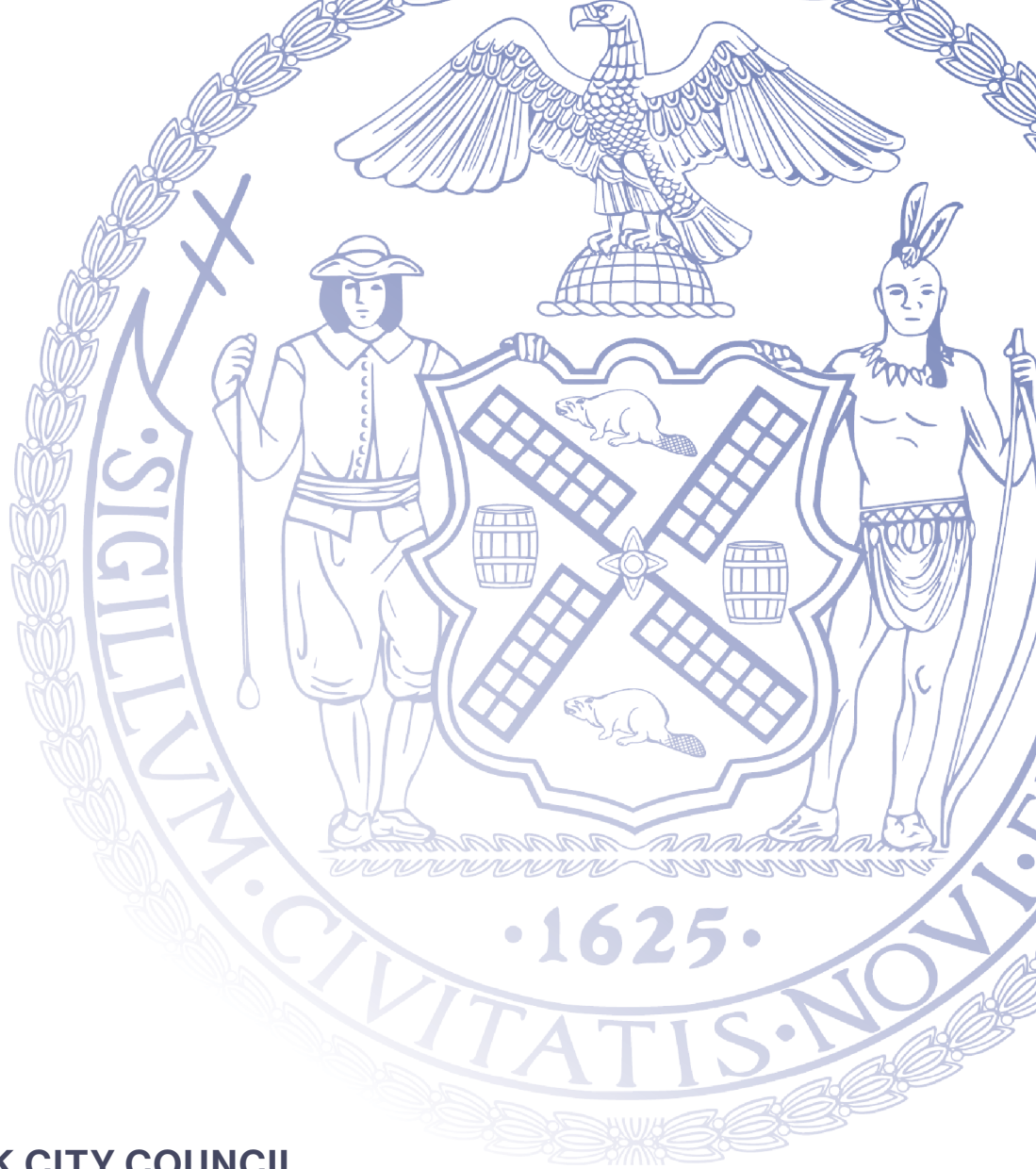
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ABOUT NEW YORK CITY COUNCIL FINANCE DIVISION

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

> Resilient Economic Outlook with Below Long-Run Growth Ahead

The national and City economies continue to show resilience. However, the lagged effects of elevated interest rates will keep economic growth below its long run average going forward.

> Council's Tax Revenue Projections Stayed Largely the Same

The Council projects similar tax revenues to its last forecast in February 2024. Nonetheless, overall growth rate is still weaker than the previous decade.

> More Tax Revenues than OMB Projects

With the recent projections, the Council expects \$1.1 billion more in tax revenues than OMB over Fiscal 2024 and Fiscal 2025.

Calendar Year 2024 Economic Indicators Forecast

**YoY= Year-over-Year*

HEADLINE INFLATION

US: 3.2%
NYC: 2.7%

FEDERAL FUNDS RATE

5.1%

REAL GDP/GCP

US: +2.5% YoY*
NYC: +1.9% YoY

UNEMPLOYMENT RATE

US: 3.8%
NYC: 4.5%

PRIVATE EMPLOYMENT

US: 1.5% YoY
NYC: 1.1% YoY

NATIONAL ECONOMY

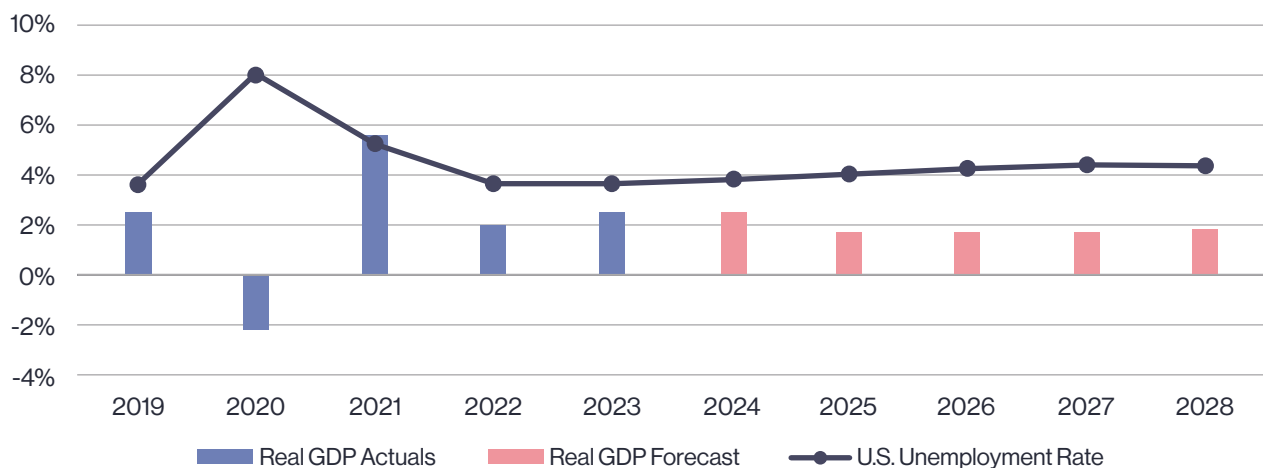
Economic Activity Continues to Show Strength, But Growth Ahead Will Be Moderate

National economy entered 2024 at a solid pace while headwinds from above-target inflation and restrictive monetary policy continue to place pressure on the economy.

- Business activity, consumer sentiment and labor markets continue to be on a strong footing while showing signs of deceleration due to higher-for-longer interest rates.
- Job gains started to moderate month over month with payroll employment registering +315K jobs in March followed by +175K in April 2024.

FIGURE 1

U.S. Real GDP Growth Expected to Moderate while Unemployment Rate will Settle Around 4% Starting 2025



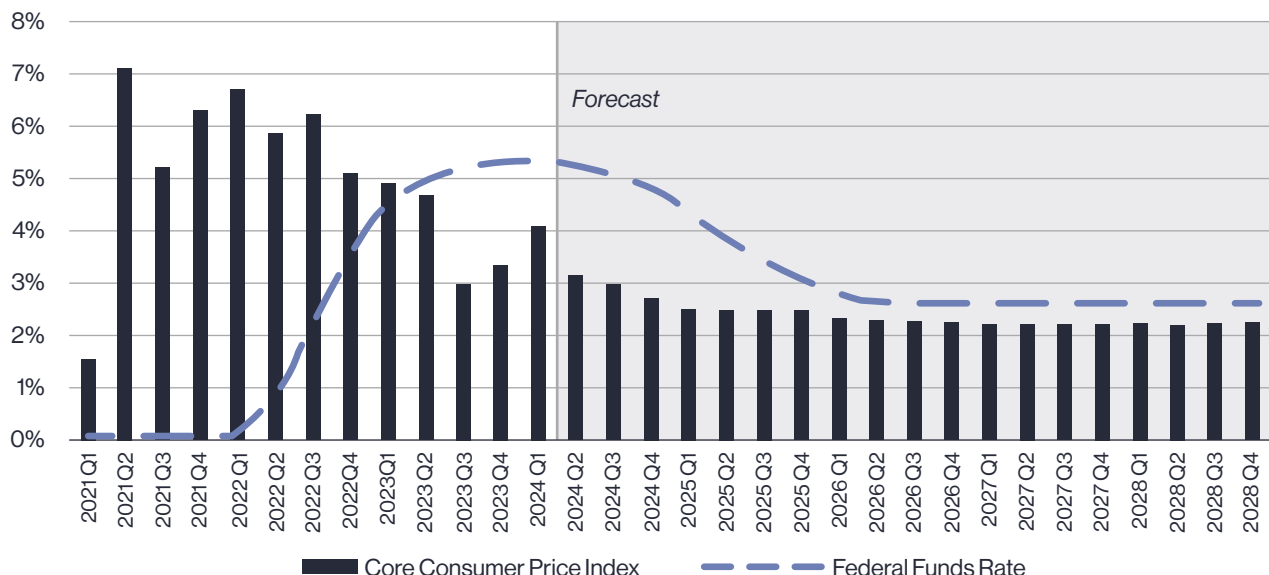
SOURCE: U.S. Bureau of Economic Analysis, Council Finance

Going forward, the Council expects slower economic growth in comparison to pre-COVID levels as consumer spending and labor markets continue to cool down.

- Despite recent stubborn inflation data, Council projects consumer price index will still gradually return to a declining path allowing Federal Reserve to begin lowering policy rates. Recently released April CPI report supports Council's projections reflecting slight moderation from Q1 inflation readings.
- Savings accrued during the pandemic continue to decline, while real disposable income growth softens as labor market conditions normalize.
- Headline inflation is projected to gradually decelerate to 2.2 % by the end of forecast period as consumer demand for goods and services moderate.
- In response to slowing inflation, the Federal Reserve is expected to start the policy rate reduction. The Federal Funds Rate will drop to 2.6% by 2026 Q2 and remain unchanged through the end of 2028.
- Rising consumer debt and lagged effects of higher interest rates will keep economic growth below its long run average.

FIGURE 2

Federal Funds Rate is Expected to Stay Elevated until Inflation is on a Sustainably Declining Path



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

CITY ECONOMY

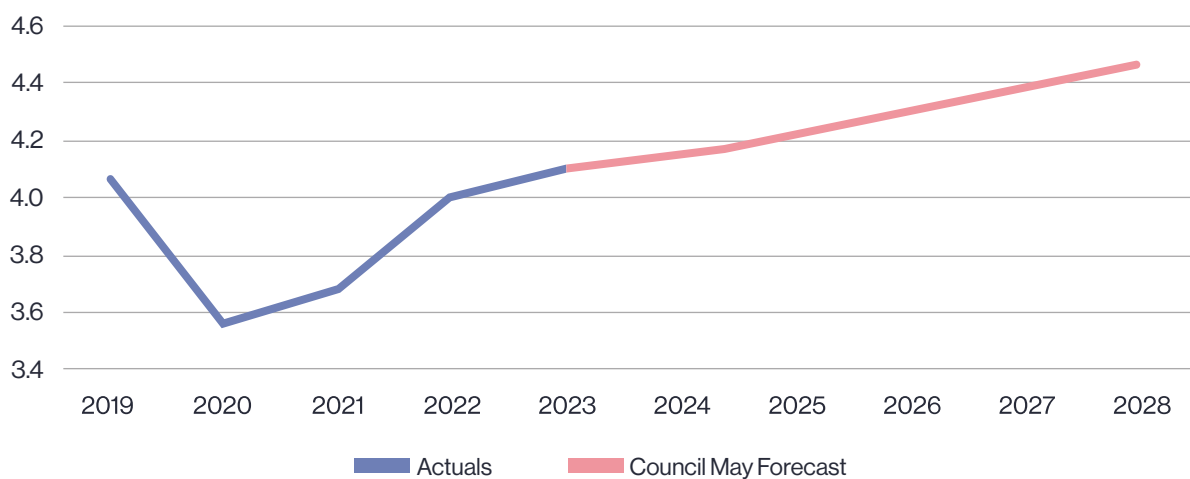
NYC Economy is Also Expected to Cool Down

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

- Total employment growth has softened with recent March update registering 1.1% over the prior year.
- Healthcare and social assistance continue to be the main drivers of the job gains, while wage growth also remains modest.
- Manhattan office vacancy rates have more than doubled since the beginning of COVID, creating a drag on the real estate market.
- 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 throughout the forecast period.

FIGURE 3

Private Sector Employment Levels in NYC (millions)



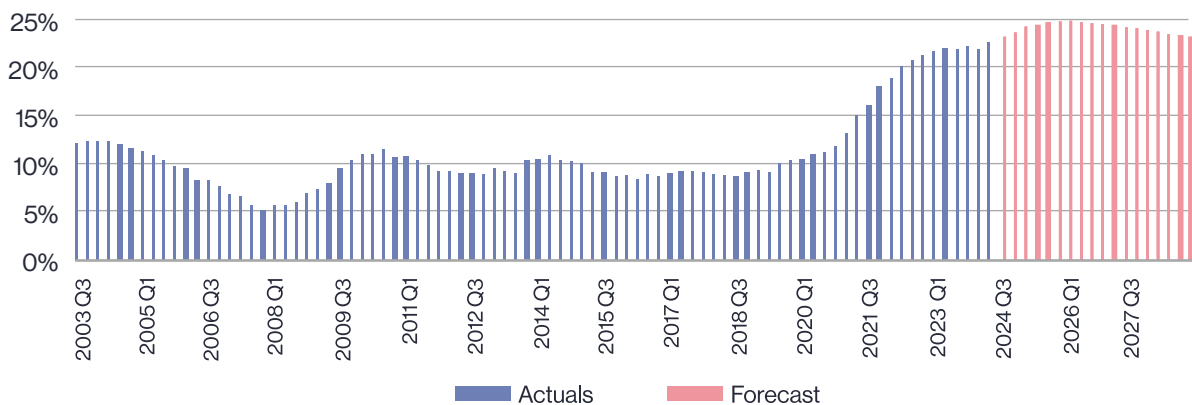
SOURCE: U.S. Bureau of Economic Analysis, Council Finance

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 projected to moderate throughout the forecast period.

- NYC private employment is expected to grow on average at 1.7% annually.
- Council's May forecast still projects weaker employment growth than the 2.6% average annual growth experienced between 2010 and 2019.

FIGURE 4

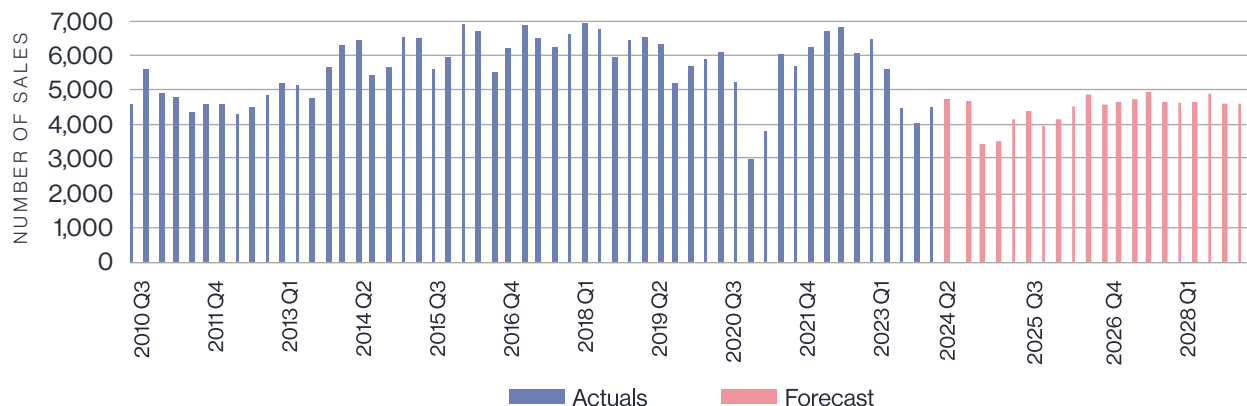
Manhattan Office Vacancy Rates will Remain Elevated



SOURCE: Cushman & Wakefield; Council Finance Division

FIGURE 5

1-3 Family Home Sales will Rebound, but Expected to Remain Below Pre-COVID Levels



SOURCE: StreetEasy; Council Finance Division

COUNCIL TAX FORECAST

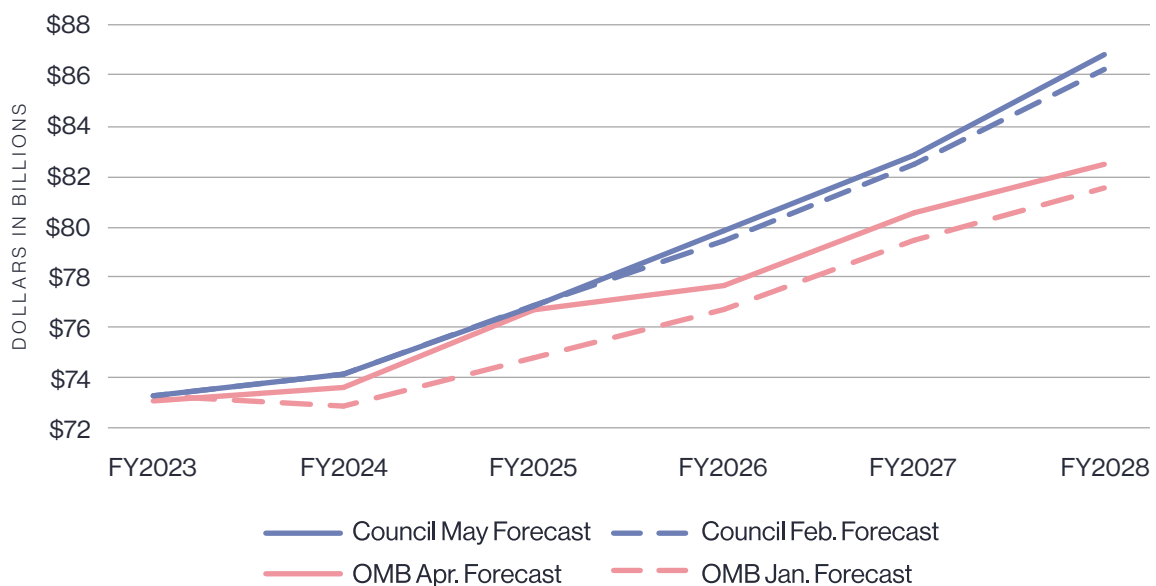
Overall Collections Projected to be Similar to the February Forecast

The Council's tax revenue forecast is largely the same as its February forecast. However, the tax revenue growth rate is moderate compared to the growth over the last decade.

- The Council expects tax revenue to grow at an average 3.4% annually through the forecast period.
- This represents smaller annual increases in collections compared to the 5.5% annual growth the City experienced in Fiscal 2010 through 2019.

FIGURE 6

Council Tax Revenue Projections Compared to OMB



Council's May 2024 Tax Forecast

TAX	FY 24	FY 25	FY 26	FY 27	FY 28
REAL PROPERTY	\$32,903	\$33,716	\$34,512	\$35,563	\$37,395
PERSONAL INCOME AND PTET	\$16,080	\$17,546	\$18,157	\$19,525	\$20,346
BUSINESS CORPORATE	\$6,619	\$6,549	\$6,571	\$6,638	\$6,723
UNINCORPORATED	\$2,693	\$2,730	\$2,784	\$2,872	\$2,968
SALES	\$9,979	\$10,426	\$11,005	\$11,567	\$12,157
COMMERCIAL RENT	\$913	\$942	\$956	\$976	\$1,002
REAL PROPERTY TRANSFER	\$1,163	\$1,209	\$1,358	\$1,434	\$1,492
MORTGAGE RECORDING	\$603	\$699	\$813	\$879	\$929
UTILITY	\$400	\$399	\$407	\$425	\$454
HOTELS	\$713	\$752	\$786	\$812	\$831
ALL OTHER TAXES	\$1,221	\$1,222	\$1,254	\$1,285	\$1,310
AUDITS	\$926	\$952	\$952	\$952	\$952
TOTAL TAXES	\$74,213	\$77,143	\$79,556	\$82,928	\$86,560

DOLLARS IN MILLIONS

What Changed in the Council's Forecast?

The Council's current tax forecast is very similar to its February projections while reflecting recent collection trends for individual taxes and updates based on the Council's recent economic forecast.

The three main changes in Council's tax forecast are revisions in personal income tax, business taxes and transfer taxes. Changes in other taxes reflect economic revisions resulting in smaller changes.

Personal Income Tax: The Council revised its income tax projections to account for the added uncertainty around income tax collections. The City saw greater-than-anticipated refunds in April, though to some extent the increase in refunds was explained by NY State's faster processing of refunds than the typical timeline. In addition, the irregular collections pattern for the City's relatively new PTET has thrown off the typical pattern of estimated installments, which makes it difficult to interpret the underlying health of non-wage income. While the PIT forecast accounts for this uncertainty, it also means there is an upside risk that collections can come in stronger than forecast. Revenues are expected to rebound in Fiscal 2025 as wages and equity prices are expected to grow.

Business Taxes: Business tax revenues have continued to outperform expectations since our previous forecast. As a result, the Council raised its forecasted business tax revenues for Fiscal 2024 to reflect the stronger-than-expected year-to-date collections. Regardless, business tax revenues are still expected to grow at a slower pace than the long run average throughout the plan years.

Transfer Taxes: Despite the anticipated drop in transfer taxes in the current fiscal year due to the high mortgage rates, recent upward revisions in quarterly home sale volume data reflect that the market is weathering current conditions better than Council's February projections. Based on this data the Council raised its transfer tax forecast throughout the plan years. However, the Council's forecast still projects a drop in transfer tax collections this fiscal year before rebounding as a response to anticipated rate declines starting in Fiscal 2025.

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 \$1.1 billion more in tax revenue than OMB.
- The difference is driven mainly by stronger personal income, property, business and sales taxes.

Council's Tax Revenue Difference from OMB April Plan

TAX	FY 24	FY 25	FY 26	FY 27	FY 28
REAL PROPERTY	\$117	\$15	\$206	\$229	\$1,379
PERSONAL INCOME AND PTET	\$79	\$262	\$683	\$1,124	\$1,209
BUSINESS CORPORATE	\$180	\$42	\$497	\$502	\$477
UNINCORPORATED	\$63	\$61	\$26	\$44	\$75
SALES	\$12	\$55	\$183	\$329	\$431
COMMERCIAL RENT	-\$2	\$3	\$1	\$7	\$22
REAL PROPERTY TRANSFER	\$13	-\$70	\$42	\$45	\$33
MORTGAGE RECORDING	\$25	\$12	\$42	-\$5	\$2
UTILITY	-	-\$21	-\$55	-\$67	-\$41
HOTELS	-	\$9	\$22	\$29	-\$5
ALL OTHER TAXES	\$79	\$179	\$179	\$179	\$179
TOTAL TAXES	\$566	\$548	\$1,826	\$2,415	\$3,762

DOLLARS IN MILLIONS



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