New York City Council
Finance Division

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NEW YORK CITY COUNCIL SPEAKER

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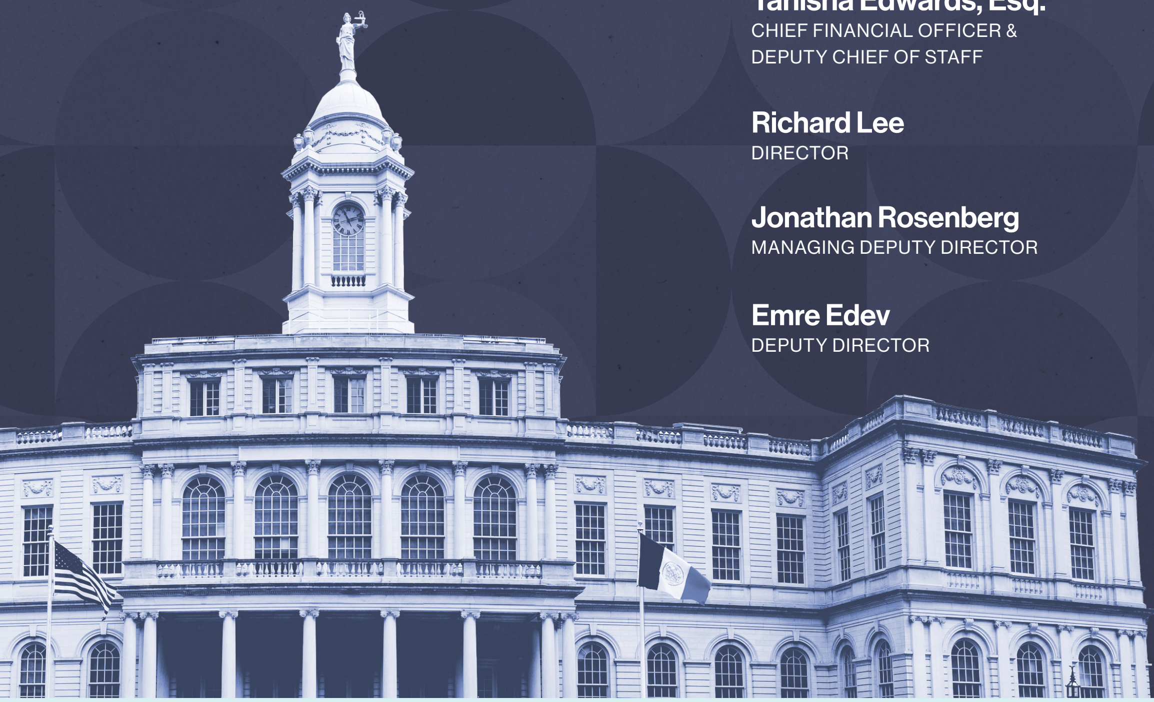
DEC 2024

Economic and Tax Revenue Forecast

PREPARED BY

The Revenue & Economics Unit



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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.

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Overview

The Council's economic outlook is similar to the one released in May

The national economy remains strong, but future growth in real gross domestic product (GDP) is expected to stay below what it was during the last recovery, between 2010 and 2019. New York City's employment is projected to continue growing, though the mix of job growth has been uneven and is something to monitor.

The Council forecasts tax revenues will grow at an average annual pace of 3.7%

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

The Council forecasts $2.6 billion in additional tax revenues above OMB's November Plan in Fiscal 2025 and 2026

The Council's current revenue projection is the result of a full reforecast of the economy and taxes. OMB's revenue update only reflects minor adjustments due to higher than expected collections year-to-date, rather than a full update to their economic and tax revenue outlook.

Calendar Year 2025 Economic Indicators Forecast

**YoY= Year-over-Year*

HEADLINE INFLATION
2.1%

FEDERAL FUNDS RATE
3.8%

REAL GDP/GCP
US: **2.0% YoY***
NYC: **1.7% YoY**

UNEMPLOYMENT RATE
US: **4.4%**
NYC: **5.6%**

PRIVATE EMPLOYMENT
US: **0.8% YoY**
NYC: **1.7% YoY**

NATIONAL ECONOMY

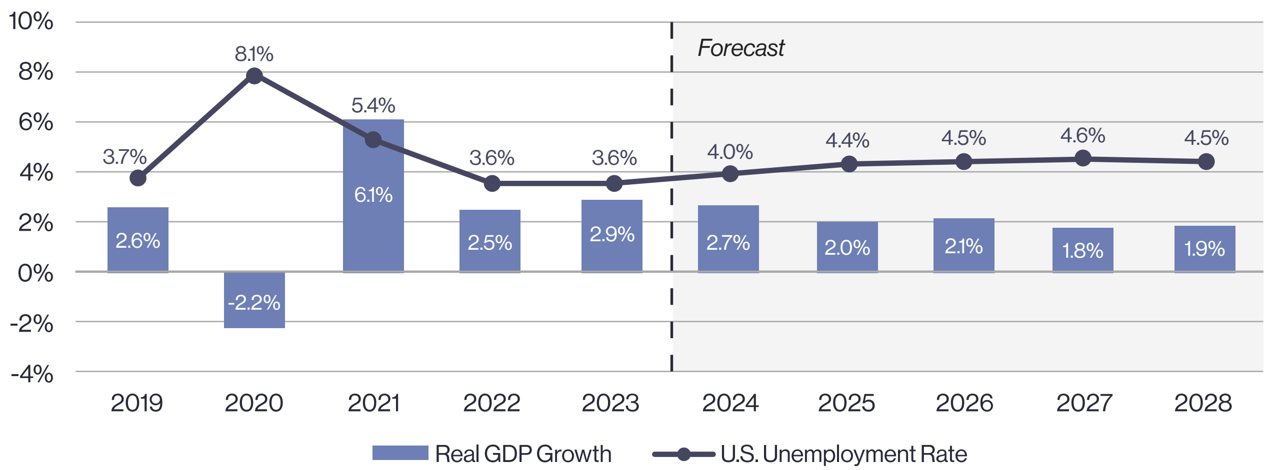
Economic Activity Continues to Show Strength

National economic growth has remained strong, barely reflecting the challenge of further reducing inflation and high interest rates.

- GDP grew at an above-trend rate of 2.8% in the Third Quarter of 2024; a result of dynamic consumer activity and robust investment in business equipment.
- However, year-over-year growth in payroll jobs has slowed over the past seven months, though still remains in positive territory.
- The Federal Reserve has begun reducing the federal funds rate, having dropped the rate three-quarters of a percentage point since September.

FIGURE 1

The Council's National Economy Forecast is Similar to its May Forecast; but with Slightly Higher GDP Growth and Unemployment



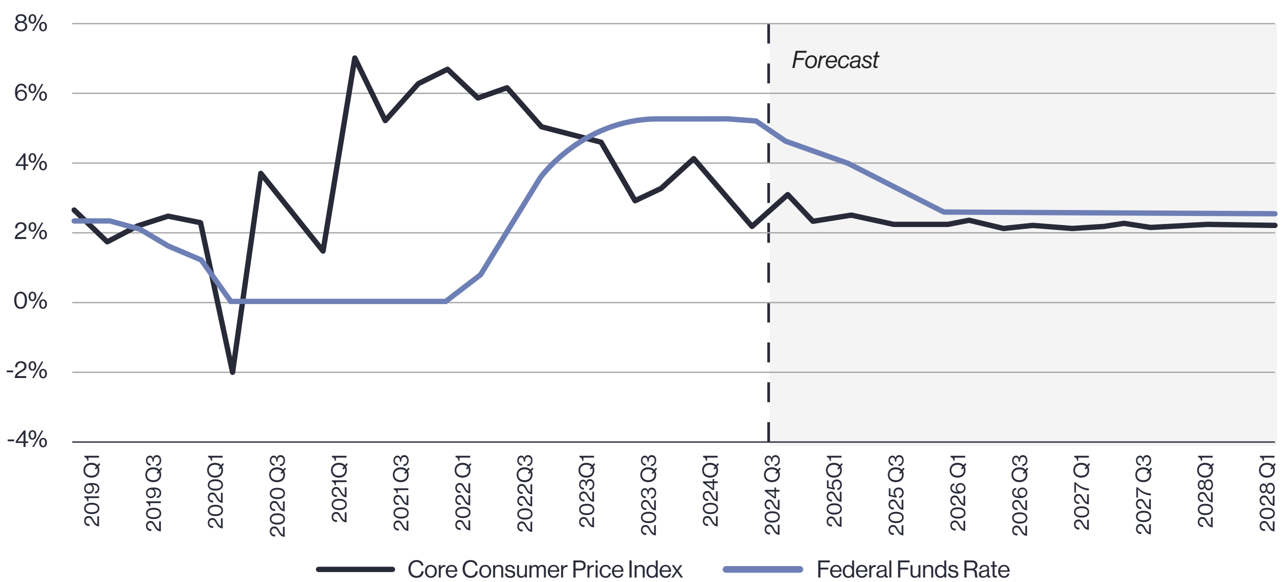
SOURCE: U.S. Bureau of Economic Analysis, Council Finance

Going forward, the Council expects real GDP to slow to below 2.0% on average through the plan period, as the remaining high interest rates will continue to impact economic growth.

- The Federal Reserve is expected to continue the gradual rate-cutting cycle while striking a balance between labor market and inflation pressures.
- Job growth will continue to slow and the unemployment rate will gradually peak at 4.6% in 2027.
- Consumer spending will cool down from its current elevated pace, in response to a softening labor market and still-elevated borrowing costs.
- Inflation, as measured by the Core Consumer Price Index (excluding volatile energy and food prices), is expected to decline to 2.3% by the end of 2025 from its current 3.3%.
- Rising consumer debt and lagged effects of higher interest rates will keep economic growth below its long run average.

FIGURE 2

As Anticipated, Fed Rates Started to Come Down; The Council Expects Fed Rates to Eventually Settle Slightly Above 2.5%



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

CITY ECONOMY

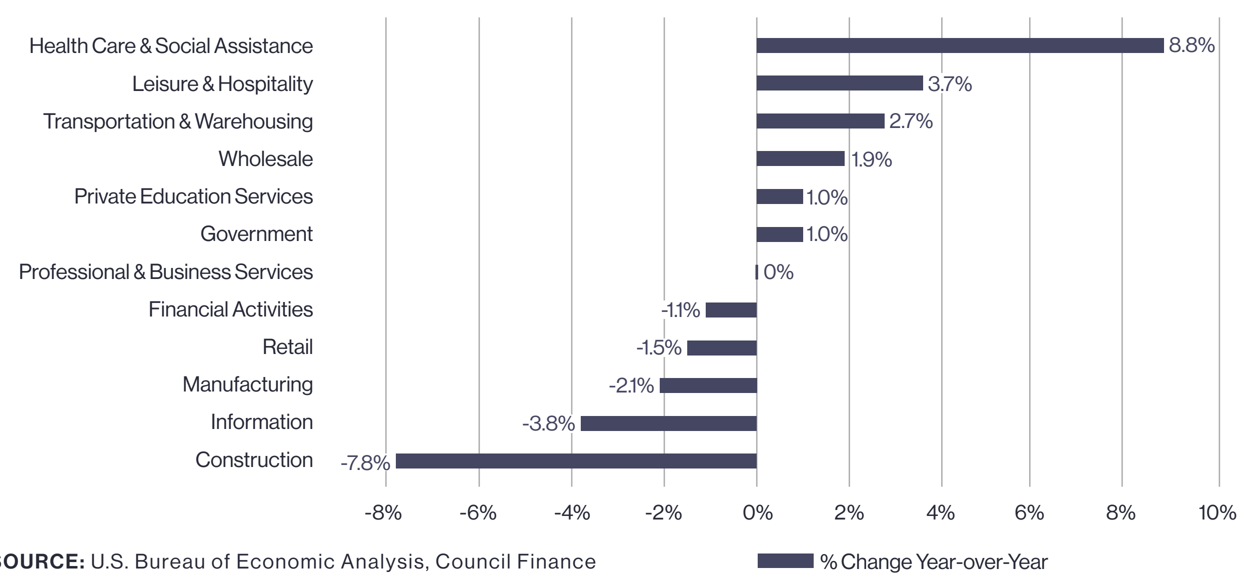
NYC Economy is Also Expected to Cool Down

Similar to the national economy, the City's continues to grow, but is showing signs of cooling down.

- Annual payroll employment growth in the City slowed to 1.7% year-over-year as of October 2024; down from a rate of 2.6% in 2023.
- While the healthcare & social assistance sector continues to be the main driver of job gains in New York City, the additional jobs in this sector tend to pay a lower than average wage.
- Meanwhile, sectors that tend to have more moderate-to-higher paying jobs, such as construction, information, and finance, all contracted.
- As a result, City tax collections, particularly from personal income withholdings and the sales tax, have been weaker than if there were more diversified job growth.

FIGURE 3

NYC Sector Comparison: Oct 2023 to Oct 2024 Employment Growth



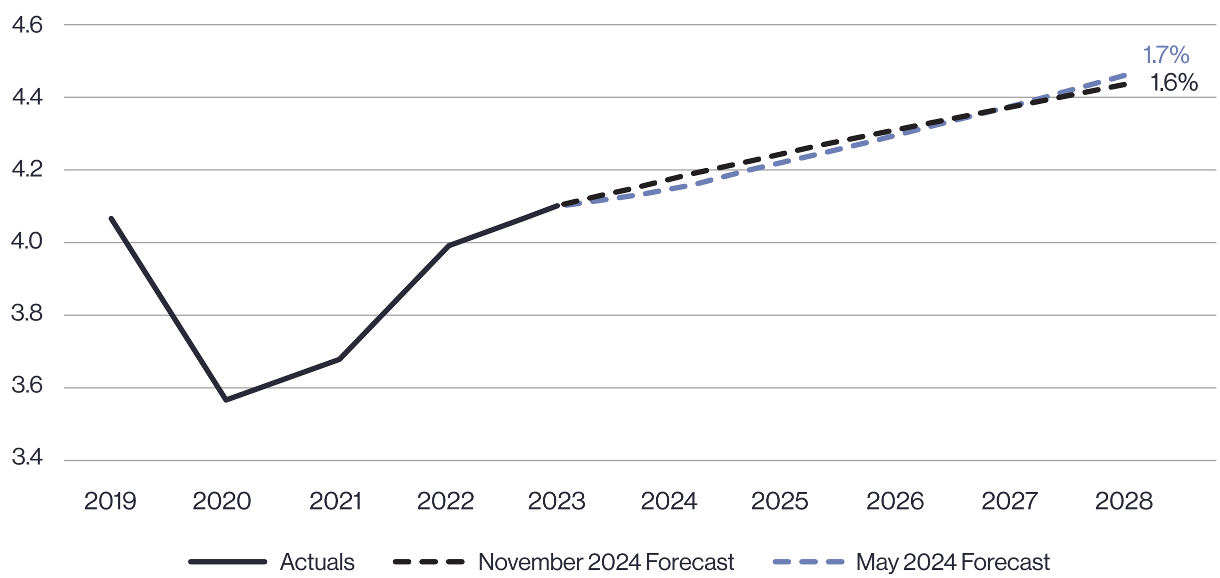
SOURCE: U.S. Bureau of Economic Analysis, Council Finance

Looking ahead, employment in the City will continue to grow, albeit at a slower pace than the pre-COVID average.

- NYC private employment is expected to grow on average at 1.6% annually.
- As the Fed gradually lowers interest rates, the moderate-to-high paying sectors most keenly constrained, will resume contributing to the job growth, raising the average wage.
- Council's November forecast still projects weaker employment growth than the 2.4% average annual growth experienced between 2010 and 2019.

FIGURE 4

Private Sector Payroll Employment Levels in NYC (Millions)



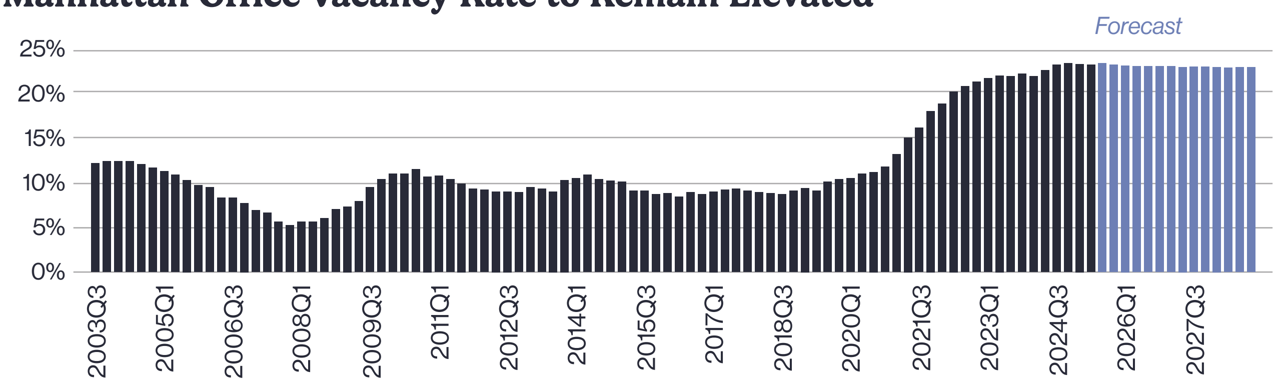
SOURCE: NYC Department of Labor, Council Finance Division

NYC's real estate market continues to struggle, but will begin to gradually improve.

- Manhattan office vacancy rates have more than doubled since the beginning of COVID, creating a drag on the real estate market.
- Expectations are that vacancy rates have reached or are near their peak, though the return to healthier rates will be very gradual.
- High mortgage rates continue to dampen the sale of existing one-to-three family homes.
- Despite an outlook of gradual rate reductions driven by the Federal Reserve, the Council expects sales to remain below their pre-COVID levels throughout the forecast period.

FIGURE 5

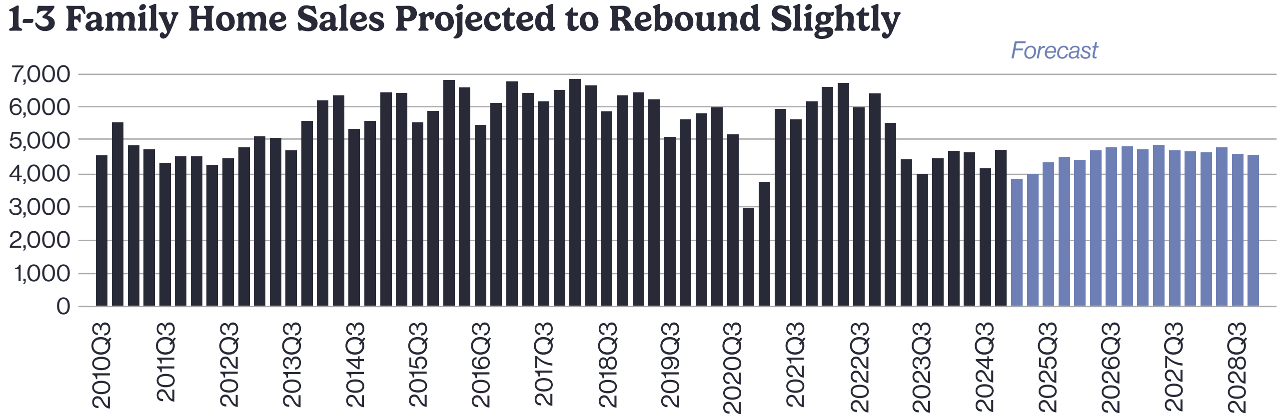
Manhattan Office Vacancy Rate to Remain Elevated



SOURCE: Cushman & Wakefield, Council Finance Division

FIGURE 6

1-3 Family Home Sales Projected to Rebound Slightly



SOURCE: StreetEasy, Council Finance Division

COUNCIL TAX FORECAST

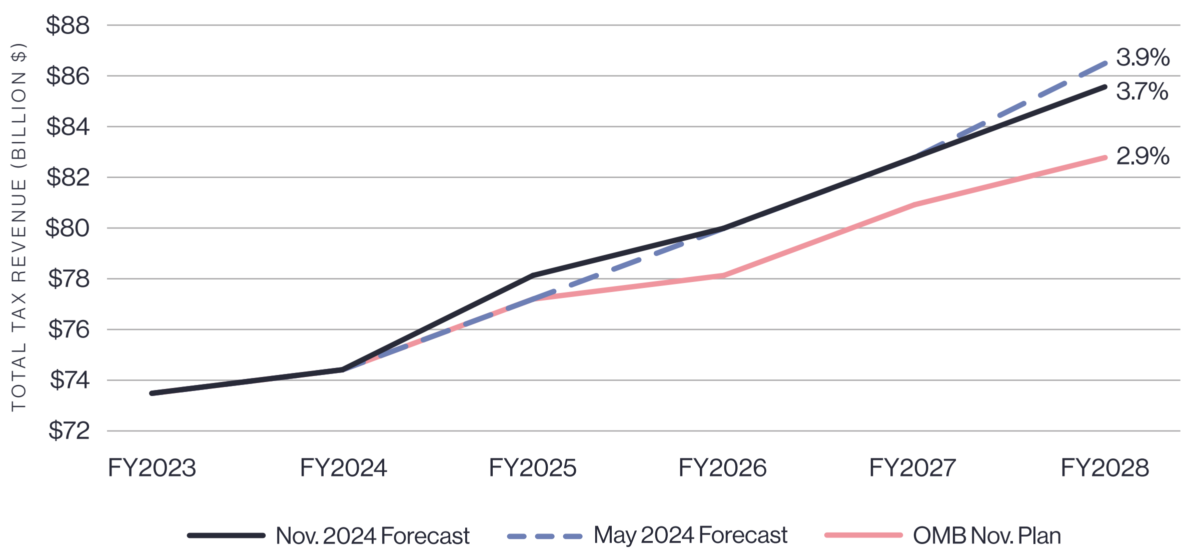
Tax Revenue Outlook Slightly Stronger than May's Forecast

The Council's tax revenue forecast recognizes $1.2 billion more in Fiscals 2025 and 2026 than it did in May. However, the tax revenue growth rate is moderate compared to the growth over the last decade.

- The Council expects tax revenue growth to average 3.7% annually through the forecast period; similar to the outlook in May.
- While a positive growth, it represents a slower growth in collections compared to the 5.5% average annual tax revenue growth that the City experienced in Fiscals 2010 through 2019.

FIGURE 7

Comparison of Total Tax Revenue Projections with Average Growth Rates, FY25 to FY28



Council's November 2024 Tax Forecast

TAX (MILLIONS)	FY2025	FY2026	FY2027	FY2028
REAL PROPERTY	$34,471	$33,355	36,472	$37,348
PERSONAL INCOME AND PTET	$17,364	$17,880	$19,127	$19,912
BUSINESS CORPORATE	$6,832	$6,807	$6,814	$6,835
UNINCORPORATED	$2,820	$2,867	$2,968	$3,079
SALES	$10,234	$10,654	$11,081	$11,552
COMMERCIAL RENT	$942	$956	$976	$1,002
REAL PROPERTY TRANSFER	$1,268	$1,362	$1,426	$1,483
MORTGAGE RECORDING	$693	$813	$879	$929
UTILITY	$411	$457	$483	$511
HOTELS	$744	$774	$813	$854
ALL OTHER TAXES	$1,255	$1,244	$1,275	$1,300
AUDITS	$852	$852	$852	$852
TOTAL TAXES	**$77,886**	**$80,021**	**$83,166**	**$85,657**

Although the Council projects weaker than normal tax growth, it still expects $2.6 billion more in tax revenues than OMB over Fiscals 2025 and 2026.

- The comparison is not strictly 'apples to apples' because OMB's revenue update was limited to recognizing higher than expected collections thus far, compared to the Council's fully updated economic and tax forecast based on recent data.
- The difference is driven mainly by stronger property, personal income and business tax collection, partially offset by weaker sales tax collections.

Differences Between Council's November Tax Forecast and OMB November Plan

TAX (MILLIONS)	FY2025	FY2026	FY2027	FY2028
REAL PROPERTY	$248	$725	$804	$988
PERSONAL INCOME AND PTET	$80	$406	$726	$775
BUSINESS CORPORATE	$224	$733	$678	$589
UNINCORPORATED	$100	$109	$140	$186
SALES	($115)	($168)	($157)	($174)
COMMERCIAL RENT	$3	$1	$7	$22
REAL PROPERTY TRANSFER	$43	$46	$37	$24
MORTGAGE RECORDING	($9)	$42	($5)	$2
UTILITY	($10)	($5)	($9)	$16
HOTELS	($7)	$10	$30	$18
ALL OTHER TAXES	$0	$0	$0	$0
AUDITS	$79	$79	$79	$79
TOTAL TAXES	**$636**	**$1,978**	**$2,330**	**$2,525**

What Changed in the Council's Forecast?

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

Real Property Tax (RPT): The Council raised its collections projection to reflect the higher than expected final assessment roll. There were additional adjustments to the reserve to reflect reduced delinquency due to new enforcement.

Personal Income Tax and Pass-Through Entity Tax (PIT & PTET): The Council downwardly-revised its income tax projections to account for the added uncertainty around PIT and PTET collections, specifically the magnitude of refunds and final settlements. 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 2025 and 2026 to reflect the stronger-than-expected year-to-date collections. Regardless, business tax revenues are expected to experience a slight year-over-year decline in Fiscal 2025, as the lagged and cumulative effect of the high interest environment finally stifles expansion.

Sales Tax: The Council reduced its sales tax projections to reflect the sharper than expected deceleration in collections during the first quarter of Fiscal 2025. The slower pace of collections is likely due to the weak growth in middle and high wage employment in the City, and high prices and interest rates discouraging consumption by low wage workers.

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