New York City Council
Finance Division

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NEW YORK CITY COUNCIL SPEAKER

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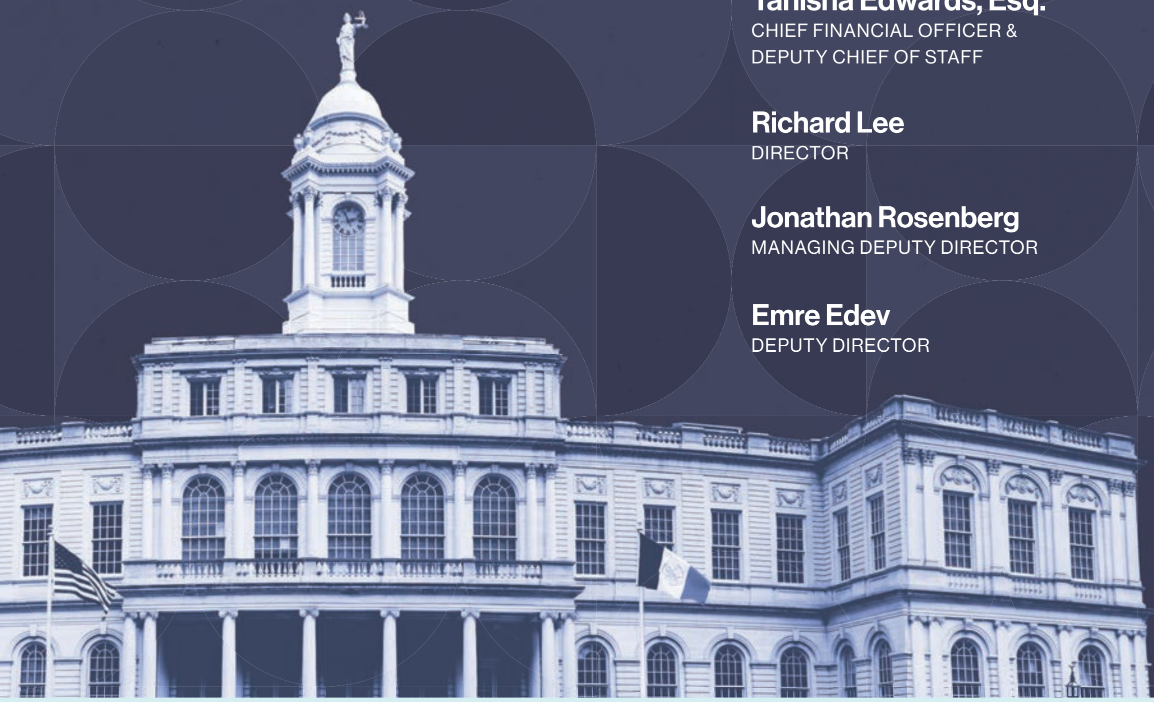
MARCH 2025

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 current outlook sees continued resilience in economic activity and slightly elevated inflation compared to its November forecast**

  The National economy will remain strong, albeit expected to stay slower than historic growth, with raised inflationary pressures in 2025 and 2026. New York City's economy is similar, though the mix of job growth is currently skewed towards low-paying positions and needs to be monitored.

- **The Council forecasts that tax revenues will grow at an average annual pace of 4.5%**

  This exceeds the Council's November forecast of 3.7%. Current projections still pale in comparison with the previous expansion between 2010 and 2019, when tax revenues grew at an annual average rate of 5.5%.

- **The Council forecasts $3.0 billion in additional tax revenues above OMB's Preliminary Plan in Fiscal 2025 and 2026**

  OMB's forecast shows tax revenues will grow at an average annual rate of 3.3%. It should be noted that while the Council's forecast incorporates collections and economic data through January 2025, OMB's forecast only covers collections through November.

Calendar Year 2025 Economic Indicators Forecast

**YoY= Year-over-Year*

HEADLINE INFLATION
2.9%

FEDERAL FUNDS RATE
4.0%

REAL GDP/GCP
US: **2.1% YoY***
NYC: **2.0% YoY**

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

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

NATIONAL ECONOMY

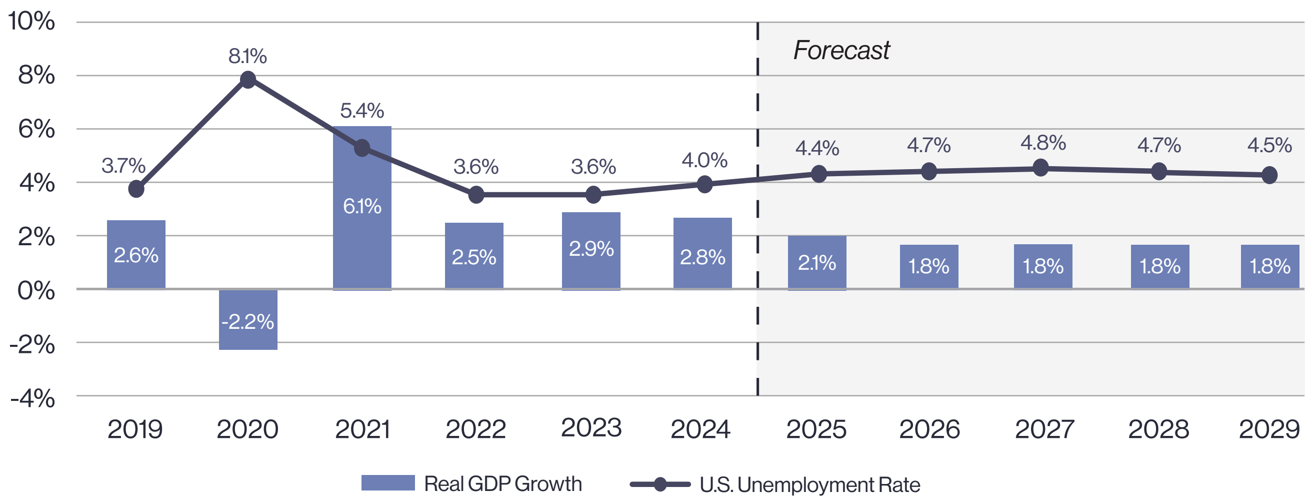
Economic activity continues to show resilience

The U.S. economy entered 2025 at a solid pace, despite increased uncertainty and remaining inflationary pressures

- Real GDP grew robustly at 2.8% in 2024, above the potential long-run growth rate of around two percent, as a result of dynamic consumer activity and investment in business equipment through the third quarter.
- However, year-over-year growth in payroll jobs was at a moderate 1.3% as of January 2025. Employment growth has been gradually slowing, largely due to still-elevated interest rates. A year ago, employment growth was 1.8% as of January 2024.
- January's Consumer Price Index increased both month-over-month and year-over-year; for both the headline CPI and the Core CPI.
- The Federal Reserve paused its rate reduction cycle in January due to higher inflation readings, following three rounds of federal funds rate reductions dropping the rate by a full percentage point since September.

FIGURE 1

U.S. REAL GDP GROWTH and UNEMPLOYMENT RATE



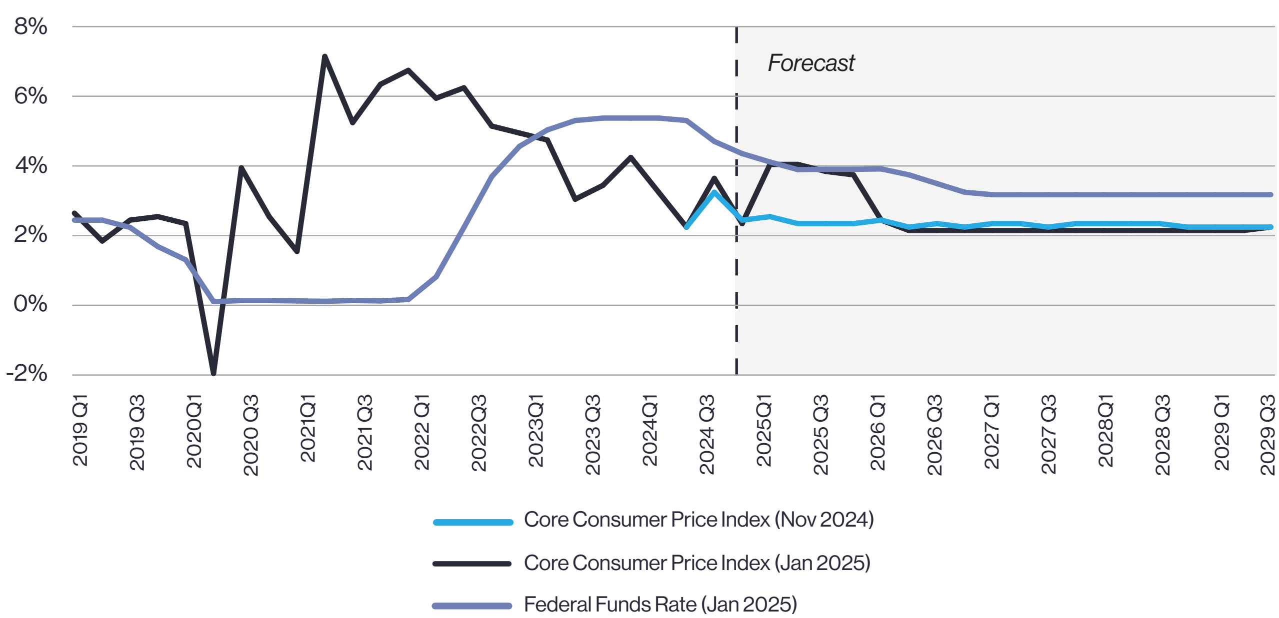
SOURCE: U.S. Bureau of Economic Analysis, Council Finance

Going forward, the Council expects economic growth to moderate below 2% due to the increased uncertainty with the federal policy landscape and the cooling impacts of the remaining high interest rates on the economic activity.

- Job growth will continue to slow and the unemployment rate is expected to gradually increase during the forecast years, peaking at 4.8% in 2027.
- Consumer spending will cool down from its current elevated pace, in response to a softening labor market and still-elevated borrowing costs.
- The Federal Reserve is expected to resume further rate easing in 2025 as economic activity moderates and unemployment starts to pick up.
- Inflation, as measured by the Core Consumer Price Index (excluding volatile energy and food prices), is expected to follow a bumpier route in 2025 and beginning of 2026 compared to Council's November forecast, before it starts to decline to 2.1% by mid-2026 from its current 3.3%.
- The Fed's slower pace of rate reductions will maintain the high interest rate environment longer than previously expected, weakening investment and borrowing while keeping economic growth below its long run average.

FIGURE 2

Higher Than Anticipated Inflation Readings Coupled with Solid Economic Growth Prompts the Federal Reserve to Pause Rate Reductions in January



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

Published on March 3, 2025

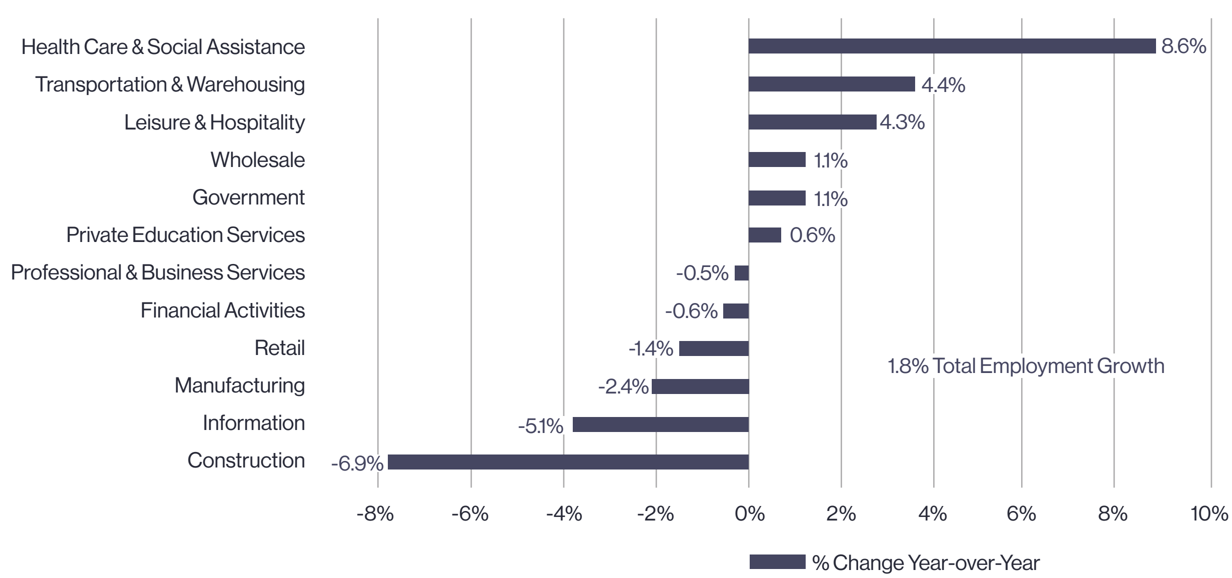
CITY ECONOMY

Similar to the US economy, economic activity in the city continues to grow

- Total payroll employment in the City grew by 1.8% 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%.
- Throughout 2024, the lion's share employment growth has been in sectors that on average pay low wages. Home health care and social assistance (reported within health care & social assistance) comprise 68.5% of total year-over-year job growth. Both sub-sectors are benefitting from the baby boomers reaching seniority. Food services and drinking places (reported in leisure & hospitality) comprise 15.2% of total year-over-year job growth.
- On the other hand, sectors paying moderate-to-higher average wages, such as professional & business services, financial activities, information and construction, all lost jobs year-over-year. These sectors are especially dependent on credit, and weakened by the present high interest rate environment.
- Manhattan office vacancy rates have reached over 23%, double the rate before Covid 19.

FIGURE 3

NYC Sector Comparison: December 2023 to December 2024 Employment Growth



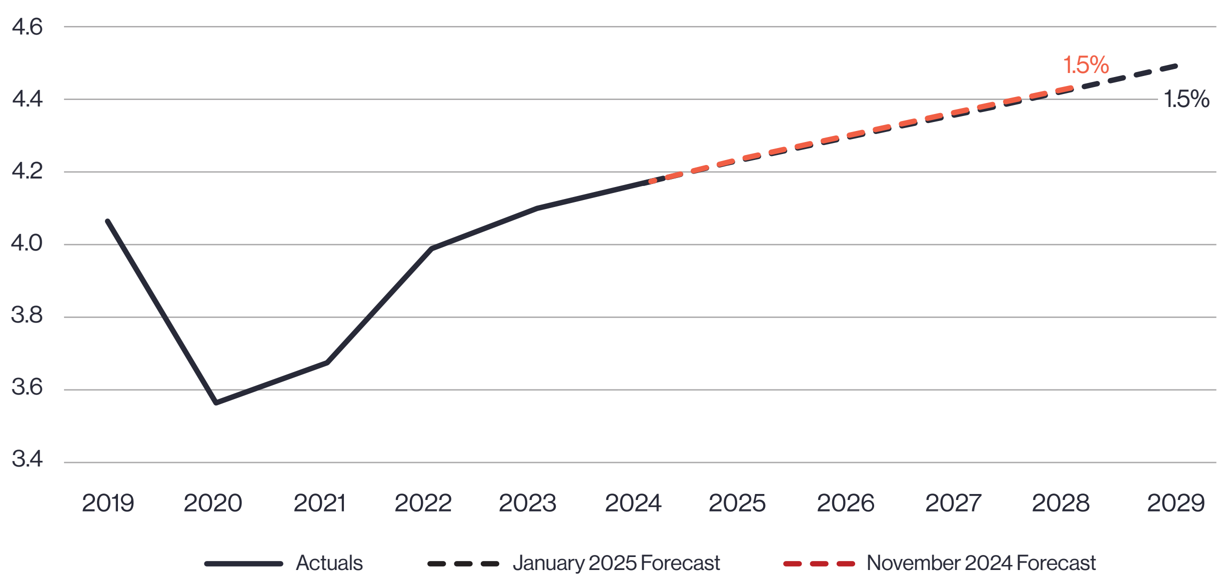
SOURCE: New York State Department of Labor, Current Employment Statistics, December 2024

Council's City employment growth projection remains largely the same as its November forecast.

- Private sector payroll employment in the City is expected to grow at a moderate annual average of 1.5% from 2025 to 2029.
- In the previous expansion from 2010 to 2019, employment climbed by an annual average of 2.6%.
- As with the national economy, high interest rates will continue to temper business expansion in the City, and consequently employment growth.
- Because of the longer than expected persistence of inflationary pressures, sectors paying medium-to-high average wages are expected to experience zero to minimal employment growth in 2025, and a return to appreciable job growth in the following years.
- Over the last two quarters Manhattan office vacancy rates have inched-down slightly from 23.6% to 23.3%. Vacancy rates are expected to continue to come down very gradually, but remain well above pre-Covid levels.

FIGURE 4

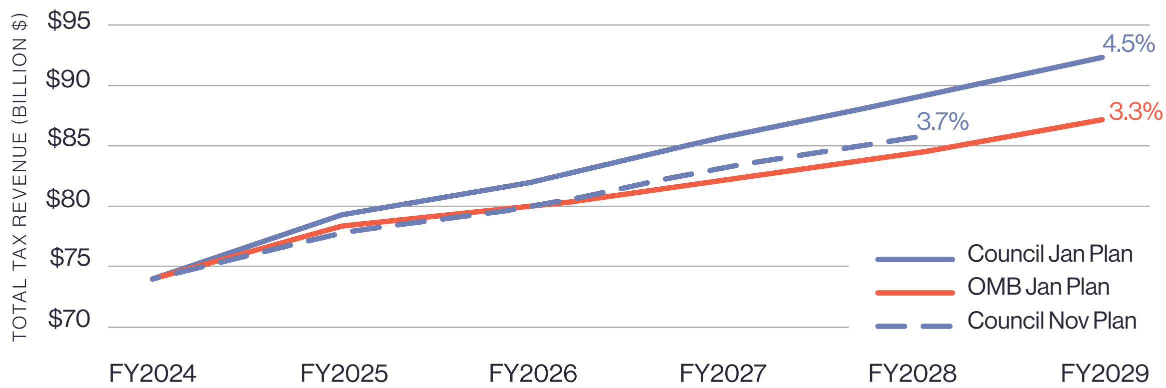
Private Sector Payroll Employment Levels in NYC (Millions)



SOURCE: NYC Department of Labor, Council Finance Division

FIGURE 5

Comparison of Total Tax Revenue Projections with Average Growth Rates, Fiscal 2025 to Fiscal 2029



The Council's tax revenue forecast recognizes $3.5 billion more in Fiscals 2025 and 2026 than it did in November.

- The Council expects tax revenue growth to average 4.5% annually through the forecast period, up from 3.7% in November.
- Higher tax revenue expectations are due to the slightly higher inflation outlook in addition to the stronger than expected recent personal income and business tax collections.
- While an improvement from November, the current forecast still represents slower growth in collections compared to the 5.5% average annual tax revenue growth the City experienced in Fiscal 2010 through 2019.

FIGURE 6

Council's February 2025 Tax Forecast

Tax (million $)	*FY2025*	*FY2026*	*FY2027*	*FY2028*	*FY2029*
Real Property	$34,540	$35,471	$37,075	$38,749	$40,391
Personal Income and PTET	$17,699	$18,445	$19,495	$20,131	$20,852
Business Corporate	$7,414	$7,517	$7,653	$7,796	$7,948
Unincorporated	$3,069	$3,222	$3,372	$3,535	$3,670
Sales	$10,320	$10,762	$11,186	$11,669	$12,120
Commercial Rent	$942	$956	$976	$1,002	$1,029
Real Property Transfer	$1,237	$1,353	$1,426	$1,466	$1,521
Mortgage Recording	$767	$872	$942	$998	$1,037
Utility	$452	$488	$524	$534	$555
Hotels	$774	$811	$849	$891	$934
All Others	$1,322	$1,350	$1,381	$1,406	$1,430
Audits	$852	$852	$852	$852	$852
City Tax Program - 'Axe the Tax'	$0	($63)	($65)	($68)	($70)
Total Taxes	**$79,387**	**$82,037**	**$85,666**	**$88,962**	**$92,269**

Although the Council projects weaker than normal tax growth, it still expects $3.0 billion more than OMB over Fiscals 2025 and 2026.

- OMB's economic forecast reflects outlook and collections through November which was released before subsequent data pointed to more buoyant corporate profits and personal income growth from bonuses and capital gains.
- On the other hand, Council's forecast incorporates economic and collections data through mid-January.
- The preponderate share of the additional tax revenue expected by the Council comes from the real property, personal income, and business taxes.

FIGURE 7

Differences between Council's February 2025 Tax Forecast and OMB Preliminary Plan

Tax (million $)	2025	2026	2027	2028	2029
Real Property	$317	$632	$1,244	$2,090	$2,900
Personal Income and PTET	$291	$761	$1,094	$994	$859
Business Corporate	$175	$250	$874	$892	$553
Unincorporated	$45	$82	$175	$283	$283
Sales	$32	$11	($12)	($15)	$45
Commercial Rent	$11	$5	$10	$23	$37
Real Property Transfer	$7	$64	$69	$41	$31
Mortgage Recording	$55	$91	$79	$95	$95
Utility	$3	$19	($7)	$27	$20
Hotels	$13	$21	$28	$45	$56
All Others	$0	$0	$0	$0	$0
Audits	$79	$79	$79	$79	$79
Total Taxes	**$1,028**	**$2,015**	**$3,633**	**$4,555**	**$4,958**

What Changed in the Council's Forecast?

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

- **Business Taxes Adjusted Upwards:** Improvement is based on continuing strength in corporate profits and collections coming in higher than expected.

  However, business taxes are expected to see a slight pullback following six consecutive years of robust growth.

- **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 steady and recent collections data shows stronger outlook as higher bonus pool started to get reflected in the tax collections in December and January raising Fiscal 2025 revenues.

  Moderate job growth in Fiscal 2026 will result in outyear PIT growing at slightly below long-run levels.

- **Property Tax Forecast Increased:** The Council raised its collections projections reflecting Fiscal 2026 tentative assessment roll impact that was published by the Department of Finance in January.

  There were additional adjustments to the reserve to reflect reduced delinquency due to new enforcement.