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Economic and Tax Revenue Forecast

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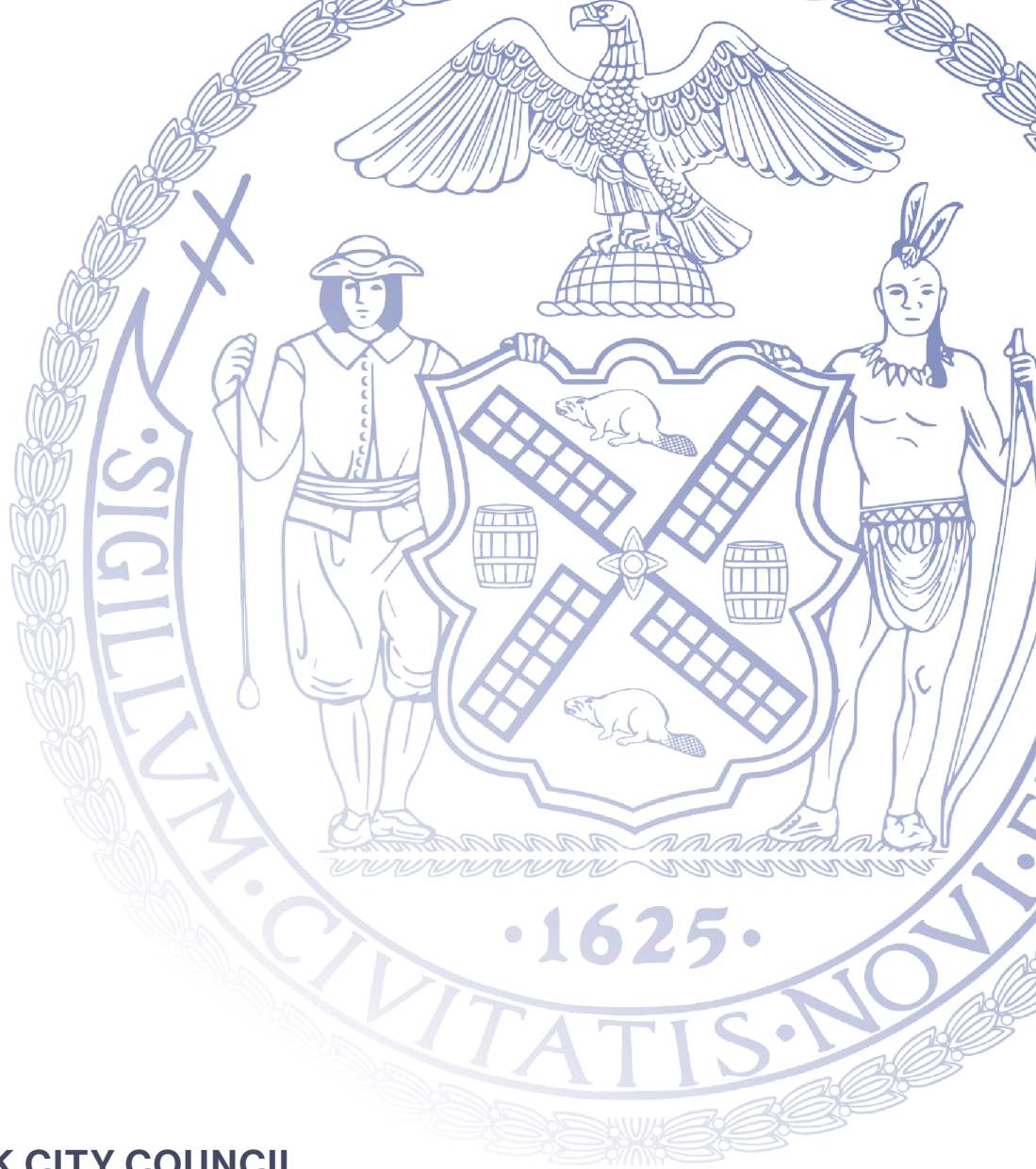
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ABOUT NEW YORK CITY COUNCIL FINANCE DIVISION

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.

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Overview

- **The Council's economic outlook foresees steady growth, with a slight improvement from the March forecast.**

Resilient consumer spending and business investment in AI and technology is keeping economic growth in positive territory. This has led to strong stock market gain and high-income households' spending which continue to contribute to the economic expansion, offsetting global uncertainty and economic pressures felt by low and moderate income households.

- **The Council's tax revenue forecast improved since March resulting in annual average tax growth of 4.3%, up from 3.8% in its last forecast.**

This improvement is driven stronger than expected collections in business and personal income taxes, along with the updated economic outlook. Despite a stronger outlook, the current projections still lag the previous expansion between 2010 and 2019, when tax revenues grew at an annual average rate of 5.5 percent.

- **The Council projects \$451 million more tax revenue than OMB in Fiscal 2026 and \$1.5 billion more in Fiscal 2027.**

Both OMB and the Council undertook a full reforecast of economy and taxes, though later publication date means the Council's forecast is able to take advantage of more recent data. Differences in the forecasts derived largely from the Council's slightly stronger outlooks for Business and Personal Income Taxes in Fiscal 2026, with that strength continuing into Fiscal 2027.

- **Analysis by Council shows that Council's forecasts have historically come closest to actual revenues.**

Analysis compared forecasts conducted by OMB, the Council, the Independent Budget Office, and the NYC Comptroller. While the Council has a track record of coming closest to actual revenues collected, all forecasters have similar variances from actual collections, and for the most part have a strong tendency to slightly underforecast actual revenues.

Calendar Year 2026 Forecast

REAL GDP/GCP

US: **2.1% YoY***
NYC: **2.6% YoY**

PRIVATE EMPLOYMENT

US: **0.3% YoY**
NYC: **0.4% YoY**

UNEMPLOYMENT RATE

US: **4.5%**
NYC: **5.8%**

HEADLINE INFLATION

4.0%

*YoY= Year-over-Year

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

FEDERAL FUNDS RATE

3.6%

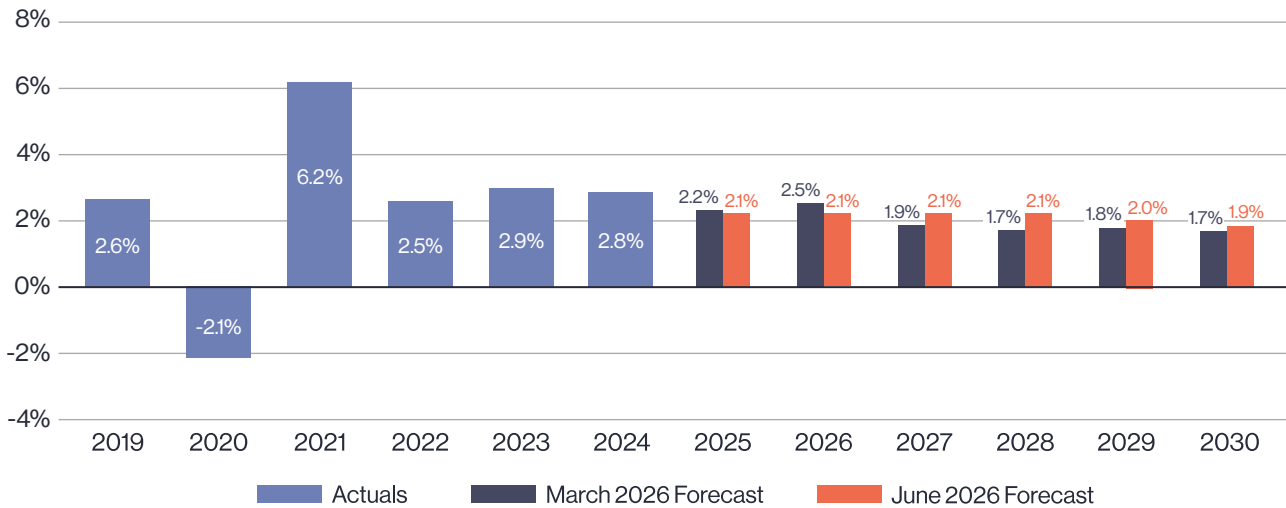
NATIONAL ECONOMY

Economic Activity Shows Steady Momentum Despite Inflationary Pressures

- National economy continued to expand with real GDP rising by 1.6 percent in the first quarter of 2026, following 0.5 percent growth in the fourth quarter of 2025 based on the second estimate published by Bureau of Economic Analysis.
- Business investment remained strong and consumer activity continued to contribute to the growth despite high price pressures. Real final sales to private domestic purchasers that measures the total consumer spending and gross fixed investment increased by 2.4 percent in the first quarter of 2026.
- Consumer spending remains supported by steady wage and salary growth, as well as strong capital gains. However, it is highly concentrated among high-income households, while lower-income consumers continue to face pressure from inflation.
- Nonresidential fixed investment grew by 10.1 percent in the first quarter of 2026, with business spending on equipment rising 17.2 percent, driven by strong investment in advanced computing hardware, data centers, and AI-related infrastructure.
- Payroll employment rose by 172,000 jobs in May. The figures for the previous two months were also revised upward to 214,000 for March and 179,000 for April, indicating solid job growth and an acceleration compared to the weaker pace seen in 2025. The unemployment rate held steady at 4.3 percent in May, unchanged from the previous month, and has remained within a narrow range of 4.3 percent to 4.5 percent since July 2025.
- The Federal Reserve kept policy interest rates steady at 3.50 percent to 3.75 percent target range in its March meeting while revising its personal consumption expenditure inflation expectations for 2026 and 2027 slightly upwards due to geopolitical tensions and higher energy prices creating added inflationary pressures.
- Headline consumer price index (CPI) rose by 3.8 percent and core CPI excluding volatile food and energy prices rose by 2.8 percent year over year in April, acceleration primarily due to the spike in energy and oil prices starting to put further pressure on other consumer prices such as shelter costs.

FIGURE 1

Historical Real U.S. GDP Change and Council Forecast



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

Council sees increases in annual GDP changes over its March forecast, but still lower than in recent years.

- The Council anticipates real GDP to grow at an average 2.0 percent steady pace annually through the forecast period.
- Payroll employment will continue to grow modestly and the unemployment rate is expected to increase slightly to 4.8 percent in 2027 followed by gradually declining to 4.3 percent by 2030.
- The Federal Reserve is expected to maintain policy rates at the current target range in 2026 due to inflationary pressures and resume gradual rate reduction in the second half of 2027 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 upward price adjustments in 2026, before it starts to gradually decline to 2.2 percent by end of 2028 from its current 2.8 percent level.

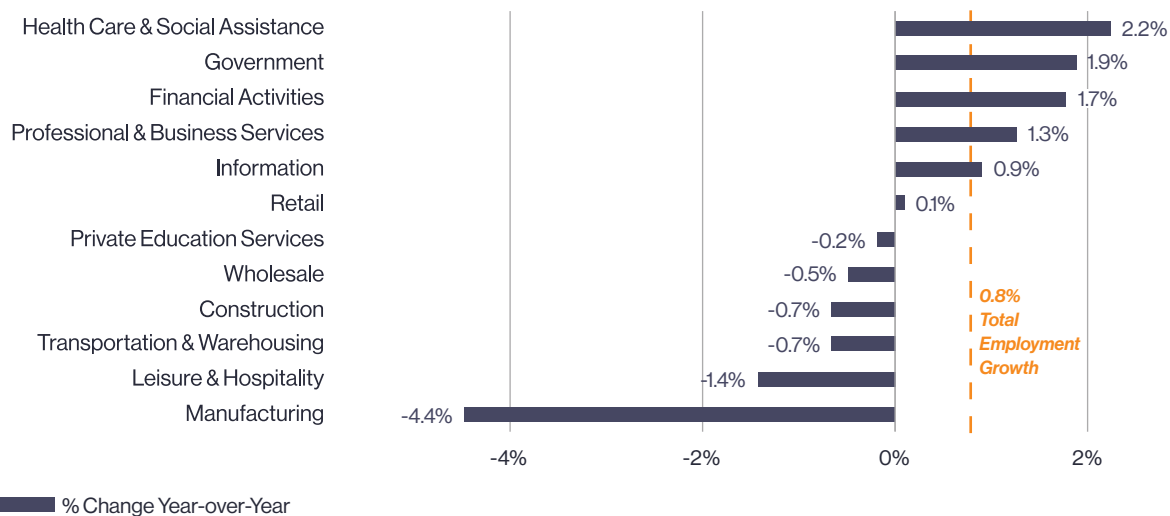
CITY ECONOMY

City Economy Continues to Show Resilience and Growth

- State's annual re-benchmarking revised NYC total payroll employment downwards by 47,000 jobs in 2025 presenting a weaker employment outlook than shown in their preliminary estimates.
- Recent job growth update for April 2026 shows some improvement but still slower at 0.8 percent annual rate in comparison to 2 percent historical average annual growth. Finance sector saw moderate annual growth of 1.7 percent, with the especially lucrative securities subsector expanding by 2.9 percent. Healthcare & social assistance is still fastest growing super-sector with 2.2 percent annual growth.
- Despite softening employment growth, the average wages paid in the City grew by a robust 6.6 percent annually in 2025, reaching \$129,023. The securities industry particularly saw its average wage climb by 11.1 percent to \$561,770.
- City's real estate market continue to show strength, with robust commercial leasing activity and declining Manhattan office vacancy rates. Residential real estate sale prices continued to increase while sales volume rose modestly.
- The Federal Reserve's latest Beige Book reports Class A office vacancies reaching back to pre-pandemic levels with recent activity from AI related firms driving up commercial leasing activity to near record highs in New York City.

FIGURE 2

NYC Sector Comparison: April 2025 to April 2026 Employment Growth



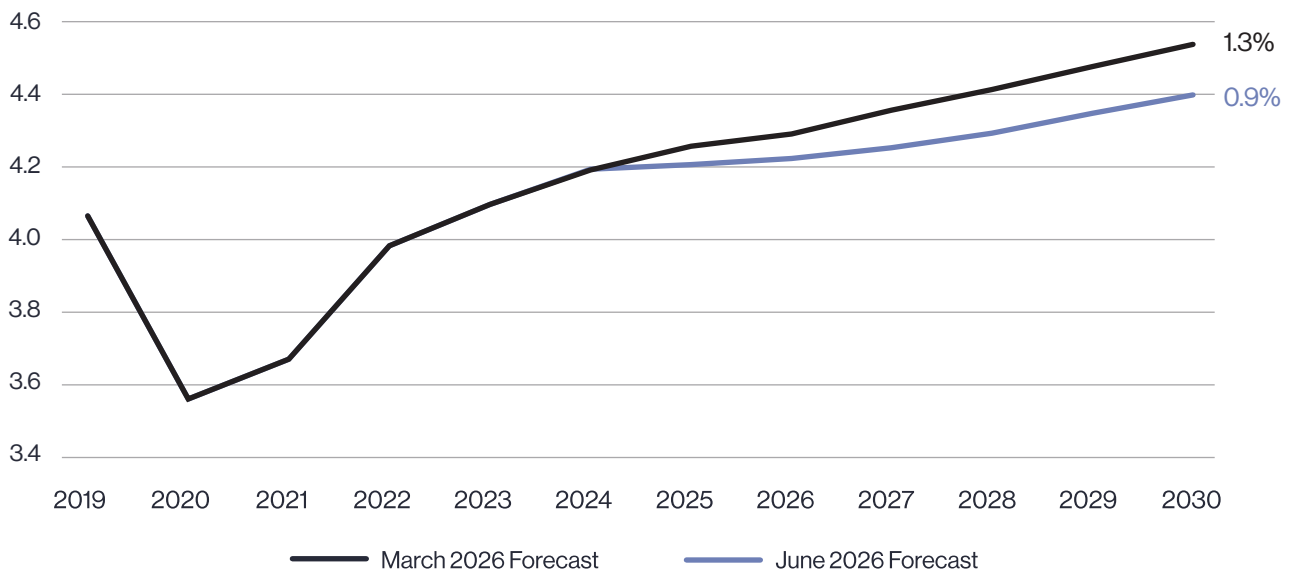
SOURCE: New York State Department of Labor, Current Employment Statistics, April 2026

Council’s NYC economy forecast revised to reflect improved total wage growth and modest employment gains

- Total wages are projected to grow at an average 4.0 percent annually throughout forecast period.
- Private sector payroll employment in the City is expected to grow at a modest annual average of 0.9 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 2027. Business services and other sectors are expected to improve 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 March Forecast

The Council's tax revenue forecast recognizes \$2.3 billion more in Fiscals 2026 and 2027 than it did in March.

- The Council expects tax revenue growth to average 4.3 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, higher unincorporated business tax and audit collections.
- Council's June forecast also incorporates anticipated revenue from two additional tax programs; real property tax high value property surcharge and reduction of personal income tax credit for unincorporated businesses starting Fiscal 2027.
- Despite the improvement from March, 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 June 2026 Tax Forecast

TAX (MILLIONS)	FY2026	FY2027	FY2028	FY2029	FY2030
REAL PROPERTY	\$35,314	\$37,318	\$39,022	\$40,667	\$42,523
PERSONAL INCOME AND PTET	\$20,581	\$21,352	\$21,970	\$22,509	\$23,210
BUSINESS CORPORATE*	\$6,670	\$7,431	\$7,652	\$7,371	\$7,528
UNINCORPORATED	\$3,771	\$3,926	\$4,154	\$4,303	\$4,510
SALES	\$10,891	\$11,602	\$11,915	\$12,297	\$12,565
COMMERCIAL RENT	\$955	\$974	\$995	\$1,013	\$1,033
REAL PROPERTY TRANSFER	\$1,513	\$1,626	\$1,666	\$1,730	\$1,792
MORTGAGE RECORDING	\$956	\$1,120	\$1,204	\$1,254	\$1,293
UTILITY	\$523	\$556	\$572	\$597	\$616
HOTELS	\$818	\$871	\$876	\$908	\$933
ALL OTHERS	\$1,526	\$1,394	\$1,411	\$1,427	\$1,436
AUDITS	\$1,208	\$1,065	\$1,092	\$1,119	\$1,147
TAX PROGRAMS**	\$147	\$654	\$611	\$493	\$492
TOTAL TAXES***	\$84,873	\$89,890	\$93,140	\$95,689	\$99,078

NOTES: *NY State's Decoupling from Federal Business Tax Changes is included within Business Corporate Tax forecast;** 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, Real Property Tax High Value Property Surcharge and Reduction of PIT UBT Credit ;*** Totals may not add up due to rounding.

The Council projects close to \$2 billion more in tax revenue collections than OMB in Fiscals 2026 and 2027 combined.

- The comparison is not strictly ‘apples to apples’ because OMB’s revenue update was based on data as of April, compared to the Council’s updated economic and tax forecast based on most recent available data in May.
- The largest share of the additional tax revenue expected by the Council comes from personal income, business taxes and sales tax for Fiscal 2026 and 2027.

FIGURE 5

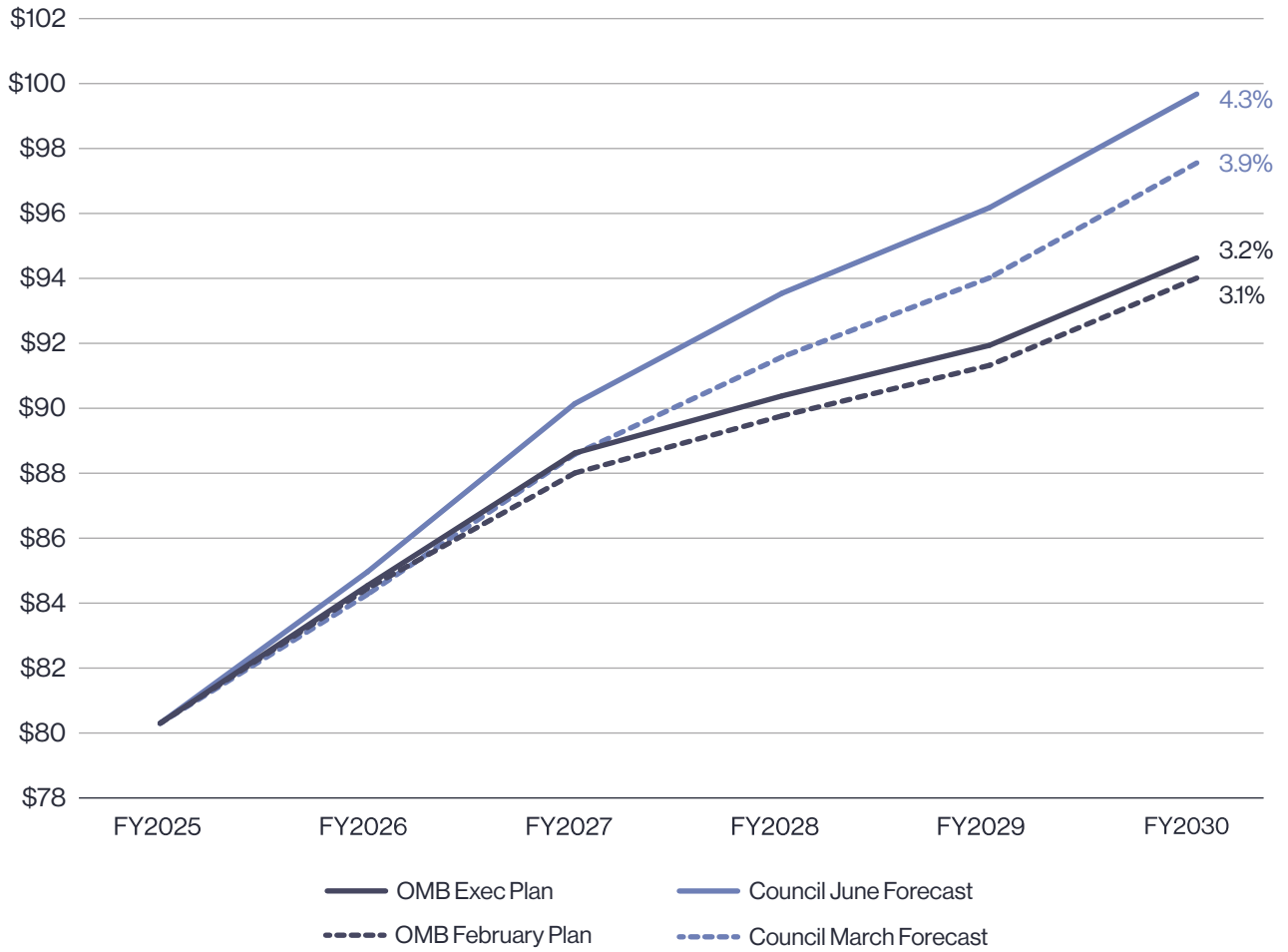
Differences between Council’s June 2026 Tax Forecast and OMB Executive Budget

TAX (MILLIONS)	FY2026	FY2027	FY2028	FY2029	FY2030
REAL PROPERTY	(\$222)	\$118	\$1,140	\$1,610	\$2,083
PERSONAL INCOME AND PTET	\$148	\$608	\$743	\$1,134	\$1,366
BUSINESS	\$278	\$216	\$767	\$1,100	\$1,262
SALES	\$23	\$244	\$21	(\$202)	(\$346)
OTHER REAL ESTATE TAXES	\$64	\$171	\$189	\$221	\$255
ALL OTHER TAXES AND AUDITS	\$160	\$158	\$202	\$240	\$267
TOTAL TAXES	\$451	\$1,515	\$3,061	\$4,104	\$4,887

NOTE: Totals may not add up due to rounding.

FIGURE 6

Comparing OMB's Recent Tax Forecasts with the Council's Forecasts (Billions)



Tax Forecast Details

The Council's current tax forecast recognizes more revenue than its February 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):

- Despite volatility making performance harder to gauge, 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.
- Recent comments by leaders in the New York City finance industry* reinforce the Council's outlook of healthy growth in Fiscal 2027.
- Heightened volatility and moderate job growth will result in outyear PIT growing below long-run levels, though not as weakly as OMB's outyear forecast which averages below the rate of inflation.

Business Taxes

- Following six years of steep growth, business corporation tax plateaued in Fiscal 2025.
- Collections in Fiscal 2026 continue to show weakness attributed partially to the federal corporate tax provision changes that reduced the calculation of business income that was taxable, reducing liabilities, though this weakness has moderated since the March forecast.
- Council's forecast is revised to account for this slight improvement from the March forecast, but otherwise largely similar.
- Business taxes are expected to recover in Fiscal 2027 forward as some of the business tax revenue lost in Fiscal 2026 will be recouped in Fiscals 2027 and 2028 due to actions taken by New York State to decouple from the federal business tax income changes.

*Glickman, Ben. "Big Banks Are Raking In Profits as Market Turbulence Shows No Signs of Easing." Wall Street Journal, 29 May 2026, https://www.wsj.com/finance/banking/big-banks-are-raking-in-profits-as-market-turbulence-shows-no-signs-of-easing-5baeff3d?mod=banking_news_article_pos3.

Property Tax

- Council's property tax forecast reflects recent collections and uncollectible reserves updates to reflect an expectation that tax enforcement efforts will resume in Fiscal 2027, spurring higher than typical collections of delinquent accounts.
- In addition, Fiscal 2027 levy forecast is updated based on the final assessment roll that was published in May by the City's Department of Finance.

Real Property Transaction Taxes

- Collections in transfer taxes increased mainly due to recent improvement in commercial real estate transfers, particularly in multifamily, retail and top-tier office spaces. Office market continues to improve with strong leasing activity and declining vacancy rates that stabilized transaction prices of the high-end commercial properties, thereby raising the Council's forecast of these two taxes.

Sales Tax

- The sales tax forecast is driven by improved outlook in both total wages and retail sales including food services along with moderately stronger collections through first quarter of 2026.
- A transient increase in revenues from FIFA World Cup and other summer events are expected to temporarily raise Fiscal 2027 forecast above normal levels.

Hotel Tax

- Similar to the sales tax, the FIFA World Cup and other summer events are expected to provide a one-time bump in Fiscal 2027 revenues.
- Despite global uncertainty, the Council expects Fiscal 2028 will plateau as typical growth will be offset by the withdrawal of the one-time bump in Fiscal 2027, before returning to moderate growth in Fiscal 2029.

Tax Policy Changes

- Council's forecast assumes the following tax program 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
 - Real Property Tax High Value Property Surcharge
 - PIT credit reduction for unincorporated businesses

Audits

- Council's tax audit revenue projections increased to reflect the latest uptick in collections stemming mainly from business corporate tax, personal income tax and commercial rent tax audits.

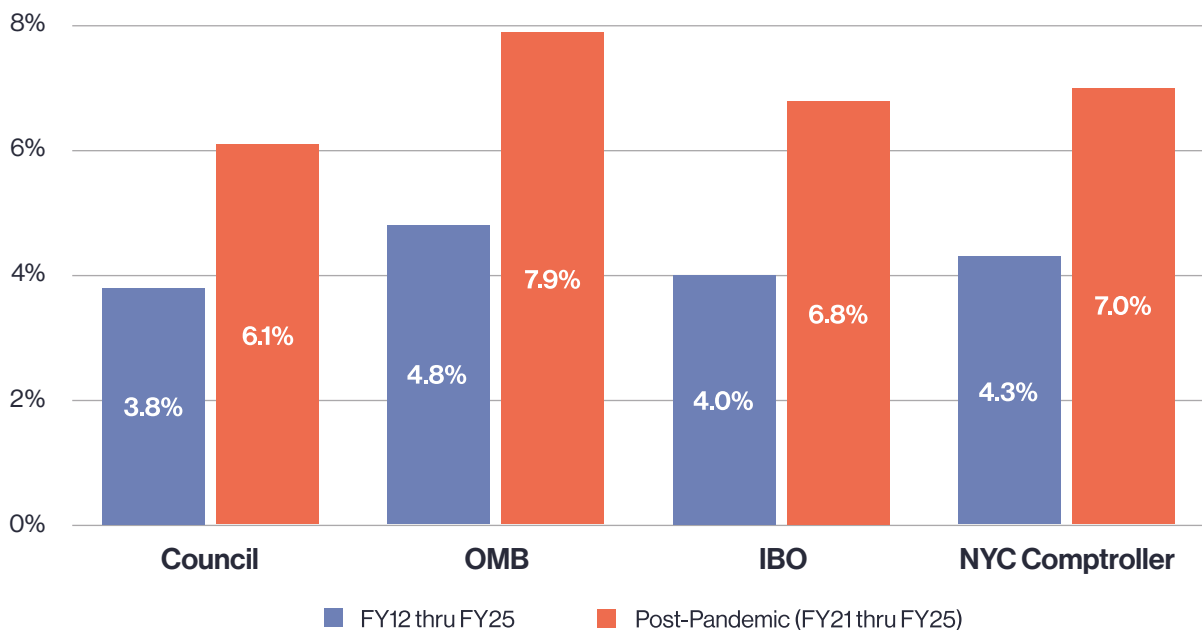
Forecasting Accuracy

The Council's tax revenue forecasts have been closest to predicting actual revenues collected

- The chart below shows the results of an analysis comparing how close the forecasts of the Council, OMB, the Independent Budget Office, and the City's Comptroller in predicting how much tax revenue will be collected in a given fiscal year.
 - The analysis compare the forecasts published prior to the start of a fiscal year with how much was actually collected as of the close of that given fiscal year.
 - The lower the percentage, the closer the forecaster has been to the actual revenues.
 - Forecasts have been more unpredictable in the post-COVID period, partly driven by higher volatility and faster than expected economic recovery.

FIGURE 7

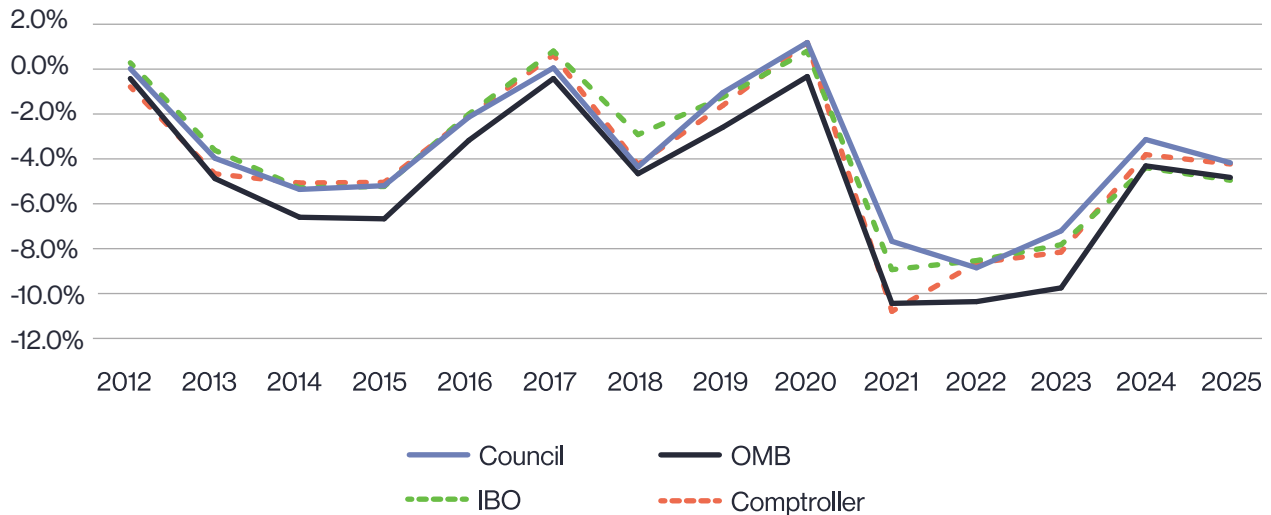
Mean Absolute Percent Error of Executive Plan Forecasts*



Notes: Executive plan forecasts refer to the immediately upcoming fiscal year in the forecasts released around the time of the Mayor's Executive Plan. Mean absolute percentage errors (MAPE) take the absolute value of a percentage where the numerator is the variance between the forecast and the actual and the denominator is the actual. The results for each forecast in the relevant periods are averaged to create the MAPE.

FIGURE 8

Tax Forecast Percentage Difference from Actual Collections by Fiscal Year



- Figure 8 illustrates the analysis in a more detailed way, showing the percentage error, by forecaster for each period.
- While the Council's forecasts have tended to be closest, the difference between forecasters tends to be smaller than the difference with the actuals.
 - This implies that one key driver in the error terms in the tax forecasts comes from unpredictable shifts in the economy and tax collections
 - Notably, all forecasters have a strong tendency to slightly under forecast the tax revenues, meaning that revenues ended up coming in stronger than expected.
 - The few years where the forecasts overestimated the actual revenues, the over estimations were always safely below the budgeted in-year reserve amounts.
- A **prior analysis** that was conducted by the City Comptroller's office in 2024 had similar findings showing the Council's forecast with lowest variance, using a different methodology reviewing forecasters' projections for Fiscal 2024 revenues measured in early 2020 and early 2024.



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