New York State Economic Report

February 2009

Sheldon Silver
Speaker

Herman D. Farrell, Jr.
Chairman

New York State Assembly
Ways and Means Committee Staff

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Dear Colleagues:

I am pleased to provide you with the New York State Assembly Ways and Means Committee's Economic Report for 2009. This report continues our commitment to providing clear and accurate information to the public by offering complete and detailed assessments of the national and State economies.

The Ways and Means Committee staff's assessments and projections presented in this report are reviewed by an independent panel of economists, including professionals from major financial corporations and universities, as well as respected private forecasters.

Assembly Speaker Sheldon Silver and I would like to express our appreciation to the members of this Board of Economic Advisors. Their dedication and expert judgment continue to be invaluable in helping to refine and improve our forecasts. While they have served to make the work of our staff the best in the State, they are not responsible for the numbers or views expressed in this document.

I wish to also acknowledge the dedicated and talented staff of the Assembly Ways and Means Committee and the many hours of work that went into producing this report. They play a vital role in our State's budget process.

As we continue our efforts toward enacting a timely budget that is fair and equitable for all New Yorkers, I look forward to working with each of you.

Sincerely,

Herman D. Farrell, Jr.
Chairman

NEW YORK STATE

ECONOMIC REPORT

February 2009

Sheldon Silver
Speaker
New York State Assembly

Herman D. Farrell, Jr.
Chairman
Assembly Ways and Means Committee

Prepared by the
Assembly Ways and Means Committee Staff

Table of Contents

EXECUTIVE SUMMARY

United States

- The NYS Assembly Ways and Means Committee staff forecasts that the **U.S. economy** will contract by 1.9 percent in 2009. The staff forecast is lower than the Division of the Budget by 0.5 percentage point, Macroeconomic Advisers by 0.6 percentage point, and Moody's Economy.com by 0.2 percentage point and is the same as the Blue Chip Consensus. The staff forecast is higher than IHS Global Insight by 0.6 percentage point. It should be noted that forecasters have included stimulus packages of varying sizes and allocations; therefore, forecasts may not be directly comparable.

U.S. Real GDP Forecast Comparison
(Percent Change)

	Actual 2007	Estimate 2008	Forecast 2009	Forecast 2010
Ways and Means	2.0	1.2	(1.9)	2.1
Division of the Budget	2.0	1.2	(1.4)	2.2
Blue Chip Consensus	2.0	1.3	(1.9)	2.1
Moody's Economy.com	2.0	1.2	(1.7)	2.0
Macroeconomic Advisers	2.0	1.1	(1.3)	3.7
IHS Global Insight	2.0	1.2	(2.5)	2.2

Sources: NYS Assembly Ways and Means Committee staff; Blue Chip, February 2009; New York State Division of the Budget, 2009-10 Executive Budget, 30 Day Amendments, January 15, 2009; Moody's Economy.com, January 2009; IHS Global Insight, January 2009; Macroeconomic Advisers, January 2009.

- The NYS Assembly Ways and Means Committee staff includes an additional **fiscal stimulus** of $827 billion in this forecast. The staff assumes that of the $827 billion, $311 billion will be allocated throughout 2009, $403 billion will be distributed throughout 2010, and the remaining $113 billion will be carried over to 2011. The fiscal package is assumed to include aid for transfer income, infrastructure spending, state and local spending, as well as various tax cuts, though there is uncertainty surrounding the specifics of how and when the package will be implemented.

- The U.S. economy is in **recession**. The global economy is suffering through an unparalleled financial crisis, and what began with the failure in the subprime mortgage market has led to turmoil in the financial markets of historic proportions. Paralyzing uncertainty, a plague of negative forces, and an unprecedented Wall Street restructuring are threatening the health of the economy and restraining growth. Global and national indicators of the economy's condition continue to deteriorate, leading to exceptional government actions to prevent the economy from degrading further.

- The **credit crunch** has had farther-reaching effects than first anticipated. What originally started as general concern over mortgage-backed securities has spread to other areas of the economy. Global credit losses and write-downs have totaled more than $1 trillion, and there are more to come. Exceptional moves by the government and the Federal Reserve have become common events as officials try to minimize the damage to the overall economy and hasten a return to growth.

- The U.S. economy is expected to experience a sharp weakening throughout the first half of 2009. **U.S. real Gross Domestic Product** (GDP) is forecast to decline four quarters in a row starting with a decline of 0.5 percent in the third quarter of 2008, then a 4.7 percent decline in the fourth quarter, followed by declines of 4.8 percent and 1.3 percent in the first two quarters of 2009, respectively.

- Without any further action by the government, **U.S. real GDP** would decline 3.2 percent in 2009 and another 0.9 percent in 2010.

- During the **current downturn**, real GDP is forecast to decline by 2.9 percent peak to trough and payroll employment by 3.8 percent or 5.3 million jobs. In comparison, during the 1990-91 downturn, real GDP declined by 1.3 percent and payroll employment by 1.4 percent or 1.5 million jobs. During the 2001 recession, real GDP declined by 0.2 percent and payroll employment dropped by 2.0 percent or 2.6 million jobs.

- **Personal consumption spending**, adjusted for inflation, grew 0.3 percent in 2008, after growing 2.8 percent in 2007. In 2009, due to the strains in the housing and financial markets and deterioration of the labor market, real personal consumption spending is forecast to decline 1.6 percent. This will be the first yearly decline since 1980 and the largest yearly decline since WWII. With credit flow expected to resume and the overall economy to recover, due to a large injection of fiscal stimulus, consumer spending is forecast to grow 1.8 percent in 2010.

- Overall **private investment spending** declined an estimated 6.2 percent in 2008. As the correction in the housing market continues and tight credit conditions and a weakening economy weigh on business confidence, business spending is forecast to decline for the third consecutive year, falling 15.4 percent in 2009 before recovering by 8.4 percent in 2010.

- The **housing market** correction, which started in the second half of 2006, has become a big drag on the economy. In December 2008, housing starts fell 45.0 percent and housing permits dropped 50.6 percent from December 2007. The housing market is expected to continue to slow in 2009.

- Declining home prices have caused millions of homes to be worth less than their current mortgage (i.e., **negative equity**. Many more homeowners are faced with the increasing possibility of negative equity.

- **Federal government spending** growth slowed to 1.6 percent in 2007 from 2.3 percent in 2006 due to slower growth in nondefense spending. In 2008, federal spending increased 5.9 percent due to significant growth in both defense and nondefense spending. Federal government spending is expected to grow 6.2 percent in 2009—encouraged by a second round of fiscal stimulus by the federal government. As the effect of the stimulus tapers off, and as the federal government reins in compensation for civilian and military personnel, federal government spending growth is anticipated to slow to 3.5 percent in 2010.

- **State and local government spending** grew 2.3 percent in 2007 due mainly to higher outlays on investments in structures. In 2008, state and local spending slowed to 1.2 percent as a result of lower revenue expectations as well as less investment in structures, and equipment and software. As state and local government deficits grow and states cut back on capital projects, layoff state employees, and cut healthcare and other programs, state and local government spending is forecast to decline 3.2 percent in 2009 and another 5.0 percent in 2010 in the absence of federal assistance. However, the federal government is considering a fiscal relief package that could inject funds into states. With this aid, state and local government spending is forecast to increase 2.1 percent in 2009 and another 2.6 percent in 2010.

- U.S. **exports** grew 8.4 percent in 2007 and remained healthy in 2008, growing an estimated 6.4 percent year-over-year. Weakening global growth and an appreciating dollar will likely cause exports to decline 5.7 percent in 2009 and another 1.0 percent in 2010. **Imports** are forecast to decline 8.9 percent in 2009 and grow 4.7 percent in 2010.

- Despite the recent gains in the value of **the dollar**, the dollar recorded the sixth consecutive yearly decline in 2008. As world economic growth is expected to slow further in 2009, and the systemic risk rises in global financial markets, the dollar is forecast to appreciate in 2009.

- The nation continues to shed a large number of jobs monthly and has lost 3.6 million jobs so far in this recession. **Employment** is expected to decline 2.7 percent overall in 2009, the largest percentage loss since 1958. Job losses in 2009 will be spread across many sectors. Only the education, health, and government sectors are expected to gain employment in 2009. In 2010, employment is expected to grow only 0.1 percent. Most sectors will expand employment only slightly, as businesses slowly add jobs as the economy recovers.

- Without any further action by the federal government, **U.S. employment** would decline 3.2 percent in 2009 and another 1.3 percent in 2010. Additionally, 4.9 million more payroll jobs would be lost between the first quarter of 2009 and the third quarter of 2010.

- **Personal income** grew 3.7 percent in 2008, after growing 6.1 percent year-over-year in 2007. As growth in wages and salaries continues to soften due to lower hourly wages and lower average hours worked, and as growth in other income components are expected to slow, the slowdown in personal income growth is anticipated to persist into 2009. Personal income is forecast to grow a mere 0.7 percent in 2009, the lowest growth since 1949. With an improvement in overall economic growth and higher wage and salary expectations, personal income growth is expected to rebound to 3.4 percent in 2010.

- **Consumer prices** grew 3.8 percent in 2008, as a direct result of pricing pressures—namely from record high energy prices, which were passed through to consumers when producers could no longer afford to absorb them. Energy prices are currently significantly lower than in early and mid-2008 and are forecast to remain well below record levels. In addition, the overall economy is weaker; therefore, prices are expected to fall 1.1 percent in 2009. This will be the first year of annual decline since 1955 when prices declined 0.4 percent. Consumer prices are forecast to increase 2.0 percent in 2010, as the economy is expected to recover.

- The price of **oil**, as measured by the refiner acquisition cost (RAC), averaged $93 in 2008, an increase of 38.3 percent from the 2007 average of $67. As demand weakens due to a slowing economy in 2009, the RAC price of oil is assumed to stabilize at $47, a level not seen since 2005.

- As economic growth is expected to weaken further and prices are expected to fall during 2009, **corporate profits** are forecast to decline 7.0 percent in 2009. Corporate profits will improve in 2010, as the national economy rebounds.

- As the outlook of economic growth remains weak and inflationary pressure moderates, the Federal Reserve will likely not change the federal funds rate target from the current 0 to 0.25 percent range until the economy rebounds in 2010. The **federal funds rate**, which averaged 1.9 percent in 2008, is forecast to average 0.1 percent in 2009, and 0.8 percent in 2010.

- The **Standard & Poor's 500 Stock Price Index** (S&P 500) declined 17.3 percent in 2008. The S&P 500 is forecast to gradually improve on a quarterly basis from current low levels. As the overall economy is expected to rebound in 2010, the stock market is forecast to improve further. The S&P 500 Stock Price Index annual average level is forecast to decline 22.2 percent in 2009 before rising by 11.5 percent in 2010.

New York State

- The NYS Assembly Ways and Means Committee staff forecasts that **New York State payroll employment** will decline 2.0 percent in 2009. The staff forecast is lower than the Division of the Budget by 0.1 percentage point, it is higher than Moody's Economy.com by 0.3 percentage point, and IHS Global Insight by 1.3 percentage points.

New York State Forecast Comparison
(Percent Change)

	Actual 2007	Estimate 2008	Forecast 2009	Forecast 2010
Employment				
Ways and Means	1.4	0.3	(2.0)	(0.1)
Division of the Budget	1.4	0.3	(1.9)	(0.3)
IHS Global Insight	N/A	N/A	(3.3)	(0.6)
Moody's Economy.com	1.4	0.3	(2.3)	(0.4)
Wages				
Ways and Means	8.8	1.9	(4.1)	2.6
Division of the Budget	8.8	1.1	(4.1)	2.5
IHS Global Insight	N/A	N/A	(4.8)	2.0
Moody's Economy.com	8.4	2.7	(5.2)	(1.0)

Sources: NYS Assembly Ways and Means Committee staff; New York State Division of the Budget, 2009-10 Executive Budget; 30 Day Amendments, January 15, 2009; Moody's Economy.com, January 2009; IHS Global Insight, January 2009.

- Without any additional stimulus from the federal government, **New York State employment** would decline 2.5 percent in 2009 and another 1.5 percent in 2010.

- **New York State wages** are forecast to fall 4.1 percent in 2009, following an estimated growth of 1.9 percent in 2008. The percentage drop in 2009 is larger than the percentage drop in wages during the two previous recessions.

- Due to adverse conditions on Wall Street and the continued limiting of activities due to the credit crunch, New York State total **variable compensation**, commonly known as bonuses, are forecast to fall 30.4 percent in 2009, compared to a decline of 1.3 percent in 2008. A drop of this magnitude in New York State variable compensation is unprecedented, and surpasses the 13.7 percent falloff in variable compensation in 2002 after September 11th. The current forecast is also exceptional as it predicts variable compensation will fall three years in a row, through 2010, as financial firms undergo major cost-cutting measures and other compensation reforms.

- The declines in New York State variable compensation will be a direct result of the major deterioration in **securities industry bonus payments** and an overall downturn in the financial activities industry. The State will be disproportionately affected during the recession compared to other states because of the industry's unique concentration in the State. In 2007, the financial activities industry made up 8.5 percent of State total employment and 24.4 percent of State wages. Nationally, the financial activities industry accounts for only 6.0 percent of employment. As the financial crisis continues, financial activities will comprise less of a share of total employment and wages. In 2010, the financial activities sector is expected to comprise 7.9 percent of total New York State employment, and 19.2 percent of total State wages.

- **Securities industry revenue and profits** are expected to continue to decline due to problems in financial markets and the absence of a rebound in activities such as mergers and acquisitions and initial public offerings.

- During the current downturn, **total job losses** in the nation are expected to reach 5.3 million. New York State will lose 267,760 jobs, 5.1 percent of the total national job loss. In 2008, New York State accounted for 6.4 percent of total national employment.

- **New York State employment** grew in most sectors in 2008. Professional services sector grew the fastest. Employment declined in the retail trade, information, financial activities, and manufacturing sectors. In 2009, employment is expected to decline in all sectors, with the exception of the education and health sector.

- Regionally, employment has grown slower in upstate than in downstate. In 2008, the largest **regional employment** gains were in New York City, while Finger Lakes lost the most jobs.

- Solid gains in the stock markets and higher home prices led to an estimated record level of New York State taxable **capital gains** of $114.5 billion in 2007. However, given the overall decline in economic growth coupled with the continued deterioration in the housing market and the significant falloff in corporate equity prices, taxable capital gains are expected to decline 50.0 percent in 2008 to $57.2 billion and an additional 18.5 percent in 2009 to $46.6 billion.

- The current economic climate presents particular challenges and **risks** to the New York State forecast. Since the extent to which the Wall Street landscape will be permanently changed when the economy emerges from the current crisis is unclear, there is great ambiguity surrounding the New York State outlook. Wall Street and the financial markets play a central role in the State economy, and drastic cuts in Wall Street compensation and the resulting reductions in Wall Street tax revenues have critical implications for the economic and financial health of the State. However, a faster turnaround than expected for Wall Street activities would offer some upside potential for the forecast.

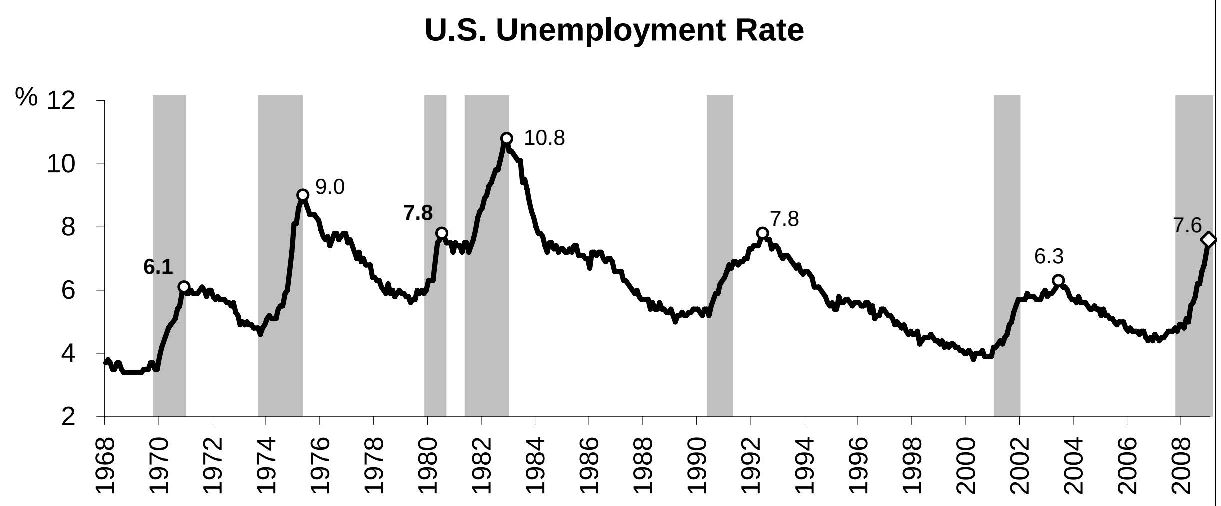
UNITED STATES FORECAST

The U.S. economy is in recession, and the global economy is suffering through an unparalleled financial crisis (see the Credit Crunch section on page 7 of this report).[1] What began with the failure in the subprime mortgage market has led to turmoil in the financial markets of historic proportions. Paralyzing uncertainty, a plague of negative forces, and an unprecedented Wall Street restructuring are threatening the health of the entire economy and restraining growth. Global and national economic indicators continue to deteriorate, leading to exceptional governmental actions to prevent the economy from degrading further.

The U.S. economy has been weakening since the summer of 2007 when the housing market revealed signs of trouble. Declining home values and the credit crunch have worked their way through the rest of the economy. Personal consumption spending, which accounts for roughly two-thirds of overall economic activity, declined 1.4 percent from the fourth quarter of 2007 to the fourth quarter of 2008. It was the sharpest four-quarter decline since 1974. Although Gross Domestic Product (GDP) adjusted for inflation, or real GDP, declined only 0.4 percent from the fourth quarter of 2007 to the fourth quarter of 2008, U.S. economic performance could have been poorer without help from the economic stimulus package of 2008 as well as the boost to net exports due to a strong global economy and weak dollar values. During the four-quarter period, a steady, sharp decline in trade deficit contributed 0.8 percentage points toward U.S. real GDP growth.

Labor market conditions are crumbling. Payroll employment has declined for thirteen months in a row starting from January 2008—a total loss of 3.6 million jobs so far, or a monthly loss of 274,770 jobs on average. The decline in employment has been broad-based with only the government, education, and health sectors adding jobs. The unemployment rate rose to 7.6 percent in January 2009, its highest in more than fifteen years (see Figure 1).

[1] The NYS Assembly presented a recessionary outlook in the New York State Assembly, *Economic Report, February 2008,* February 16, 2008, http://www.assembly.state.ny.us/comm/WAM/2008EcoRep/2008EcoReport.pdf.



Note: Data is monthly through January 2009. The shaded areas represent recessions.
Source: U.S. Bureau of Labor Statistics.

Figure 1

Various other negative forces are weighing on the economy. Although the Federal Reserve's aggressive easing and direct lending provisions have helped thaw some of the credit freeze, credit market conditions in general remain extremely tight.[2] While the commercial paper market has shown significant improvement in recent weeks (see Figure 2), corporate borrowers with lower ratings face increasing difficulty in financing (see Figure 3). As investor confidence remains low, stock market performance continues to suffer. With homebuilders' confidence falling to record lows, various indicators still point to further deterioration in the housing market. Foreclosures continue to rise and home sales continue to fall, resulting in continued decline of housing starts to record low levels (see Figure 4). Home prices are still falling, weighing on household wealth. Consequently, consumers are retrenching, despite relief from falling energy prices. Given the tight credit conditions and a slowing economy, business capital spending is also weakening. With rising unemployment and falling demand for office and retail space, commercial construction activity is set to weaken. As the confidence of businesses falls, future hiring plans are also being postponed. Furthermore, rising budgetary woes of state and local governments are restraining public

[2] Direct lending provisions include term securities lending facility, commercial paper funding facility, money market investor funding facility, term asset-backed securities loan facility, and primary dealer credit facility. The Federal Reserve credit extended through these facilities and other loans has swollen from some $900 billion in September 2008 to more than $2 trillion in late January 2009. Also, reserves in the banking system have increased sharply during the same four-month period—almost tenfold or by some $850 billion. However, commercial bank loans and credit have been on a downward trend since September 2008.

spending. Economic indicators are increasingly pointing to a severe global downturn, hampering demand for U.S. exports.

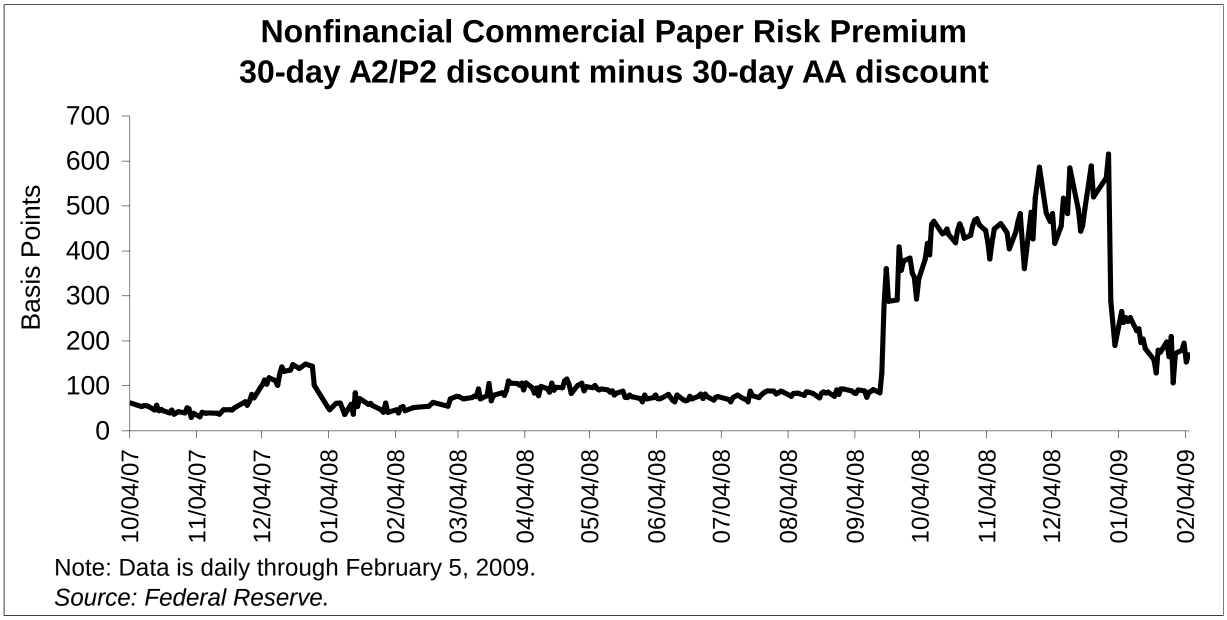


Figure 2

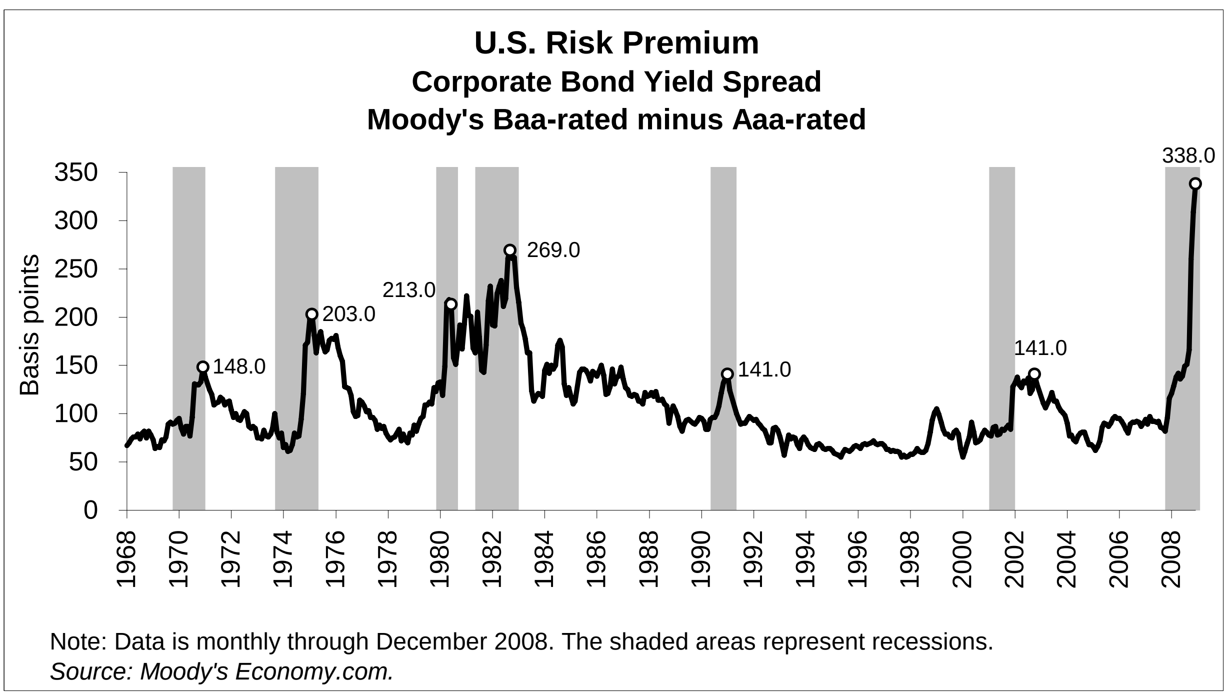
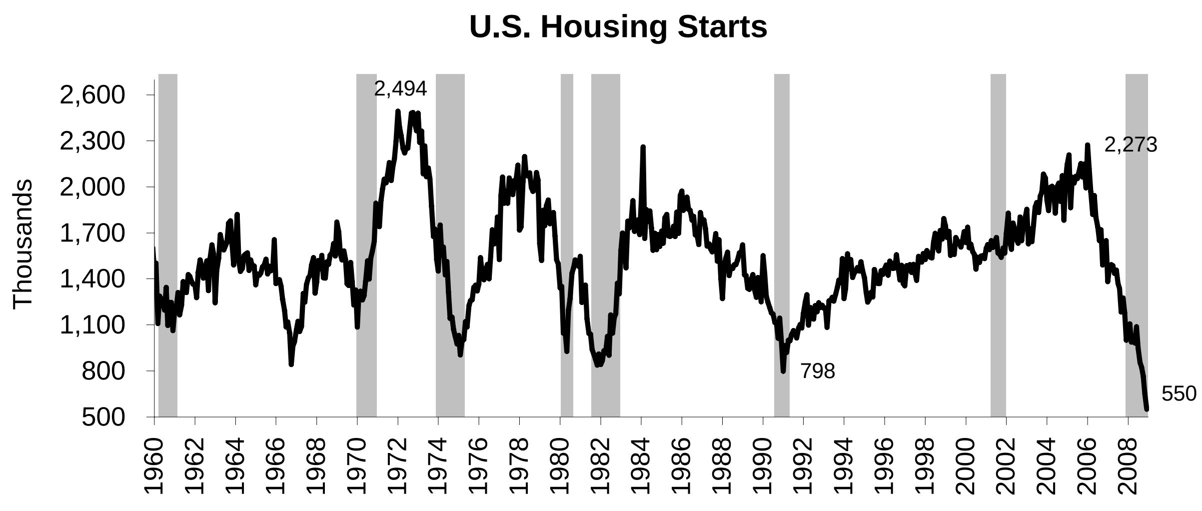


Figure 3



Note: Data is monthly through December 2008. The shaded areas represent recessions.
Source: U.S. Census Bureau.

Figure 4

Against this backdrop, the U.S. economy could experience a further, sharp weakening and the recession could last until the first half of 2010 without additional help from the government. The NYS Ways and Means Committee staff estimates that without any further action by the government, U.S. real GDP would decline 3.2 percent in 2009 and another 0.9 percent in 2010 (see Table 1).

Table 1

Economic Impact of an $827 billion Fiscal Stimulus Package
(Percent Change over Previous Year)

	2009		2010	
	Without Stimulus	With Stimulus	Without Stimulus	With Stimulus
U.S. Real GDP	(3.2)	(1.9)	(0.9)	2.1
U.S. Employment	(3.2)	(2.7)	(1.3)	0.1
U.S. Personal Income	(0.8)	0.7	0.1	3.4

Note: The columns "Without Stimulus" refer to a forecast without fiscal stimulus, while the columns "With Stimulus" refer to an alternative forecast with the stimulus, which is presented in this report.
Source: NYS Assembly Ways and Means Committee staff.

Additionally, 4.9 million more payroll jobs would be lost between the first quarter of 2009 and the third quarter of 2010. However, the current forecast presented in this document includes an injection of an additional $827 billion of fiscal stimulus. The staff assumes that of the $827 billion, $311 billion will be allocated in 2009 and $403 billion will be distributed in 2010. It is assumed that due to operational and planning issues the remaining $113 billion will be carried over to 2011.[3] The stimulus package is assumed to include infrastructure spending, aid to state and local governments, various transfers to households and businesses, and various tax cuts and credits.

Combined with the Fed's full-force easing, this large fiscal stimulus package should help shorten the recession and stabilize the U.S. economy in the second half of 2009. Concerted global stimulus programs should also help. However, as the stimulus money

Table 2

U.S. Economic Outlook
(Percent Change)

	Actual 2007	Estimate 2008	Forecast 2009	Forecast 2010
Real GDP	2.0	1.2	(1.9)	2.1
Consumption	2.8	0.3	(1.6)	1.8
Investment	(5.4)	(6.2)	(15.4)	8.4
Exports	8.4	6.4	(5.7)	(1.0)
Imports	2.2	(3.3)	(8.9)	4.7
Government	2.1	2.9	3.6	3.0
Federal	1.6	5.9	6.2	3.5
State and Local	2.3	1.2	2.1	2.6
Personal Income	6.1	3.7	0.7	3.4
Wages & Salaries	5.6	2.9	(0.7)	2.5
Corporate Profits	(1.6)	(8.2)	(7.0)	5.6
Productivity	1.4	2.9	1.8	2.6
Employment	1.1	(0.4)	(2.7)	0.1
CPI-Urban	2.9	3.8	(1.1)	2.0
S&P 500 Stock Price	12.7	(17.3)	(22.2)	11.5
Treasury Bill Rate (3-month)*	4.4	1.4	0.4	1.1
Treasury Note Rate (10-year)*	4.6	3.7	2.8	3.3

* Annual average rate.

Note: Personal income and corporate profits are nominal.

Sources: Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Federal Reserve; Standard & Poor's; NYS Assembly Ways and Means Committee staff.

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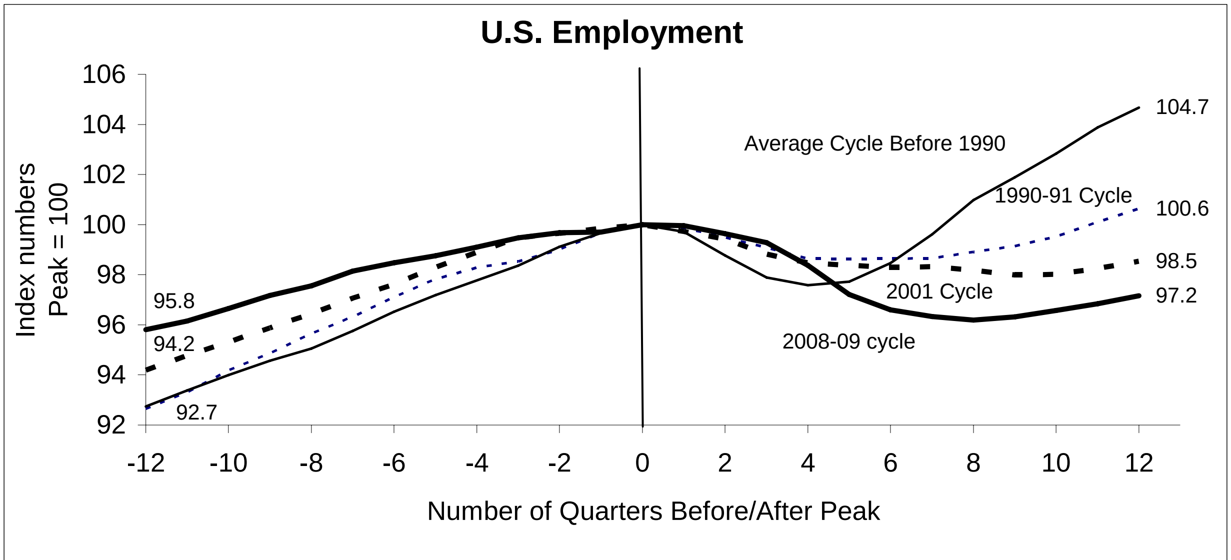
[3] A similar view is found in analyses by the Congressional Budget Office. See Congress of the United States, Congressional Budget Office, *H.R. 1, American Recovery and Reinvestment Act of 2009*, (Cost estimate for the bill as introduced in the House of Representatives on January 26, 2009; cost estimate for an amendment in the nature of a substitute, as introduced by Senators Inouye and Baucus on January 31, 2009).

may not start fully impacting the economy until the second half of 2009, U.S. payroll employment is still forecast to decline 2.7 percent and real GDP to decline 1.9 percent year-over-year in 2009 (see Table 2). GDP also declined 1.9 percent in 1982, the largest yearly decline in national economic activity since WWII. The national economy is forecast to grow 2.1 percent in 2010.

During the current downturn, U.S. payroll employment is forecast to decline 3.8 percent (or 5.3 million jobs) and U.S. real GDP to decline 2.9 percent peak-to-trough, the third largest such declines since the end of WWII (see Appendix A on page 71). Compared to earlier employment cycles, the U.S. economy created payroll jobs at a much slower rate during the most recent expansion and is forecast to lose jobs at a much faster rate during the current downturn (see Figure 5). The U.S. economy added only 4.4 percent more jobs during the three-year period leading up to the fourth quarter of 2007, whereas net job creation during earlier expansions ranged from 6.2 percent to 7.9 percent. The severity of the current downturn is such that even by the end of the third year after the peak the U.S. economy will likely have 2.8 percent less jobs compared to the 2007 peak level. In comparison, employment grew 0.6 percent during the three-year period after the 1990 peak and 4.7 percent on average during the three-year period after earlier peaks.



Note: The peak quarter for the 1991 cycle is 1990:Q2; the peak quarter for the 2001 cycle is 2001:Q1 and the peak quarter for the 2008 cycle is 2007:Q4. These peak quarters are based on employment-specific turning points.
Sources: U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

Figure 5

The recent trend in productivity and unit labor costs indicates that inflationary pressures from the labor market are essentially nonexistent. In addition, the recent sharp decline in energy prices has put further downward pressure on inflation, making the primary concern deflation rather than inflation. The Federal Reserve cut the federal funds rate target to a 0 to 0.25 percent range at its December 16, 2008, meeting and is assumed to keep this target until the first quarter of 2010.

Credit Crunch

The credit crunch has continued longer and has had farther-reaching effects than first anticipated. What originally began as general concern over mortgage-backed securities that were adversely affected by the severe downturn in the housing market, has broadened. The core problem stemmed from high exposure of the financial sector to asset-backed securities (ABS), especially mortgage-backed securities (MBS).[4] As the housing market continues to deteriorate and more subprime mortgages have been foreclosed upon, cash flows in MBS declined and became extremely uncertain. As a result, MBS holders have been significantly affected and former investment bank giants have been forced into either failure or mergers. Of the large Wall Street investment banks only Morgan Stanley and Goldman Sachs remain, both of which have now become bank holding companies. This will mean significant changes to the financial activities industry, especially in terms of wages and employment. Problems have not been limited to the United States; financial institutions around the world have sustained credit losses and write-downs totaling more than $1 trillion in assets, with more likely to come.[5]

Exceptional moves by the government and the Federal Reserve have occurred throughout the crisis. As confidence in the financial sector slid in the first quarter of 2008, the Federal Reserve made several unprecedented policy changes to stabilize the financial markets and provide reassurance to the public. Courses of action by the Fed to combat the crisis have included extensions of emergency and bridge loans to non-government regulated institutions, as well as the establishment of the Federal Housing Finance Agency (FHFA) to oversee government-sponsored enterprises involved in home mortgage markets and to provide funds to certain at-risk borrowers to refinance their mortgages. Congress

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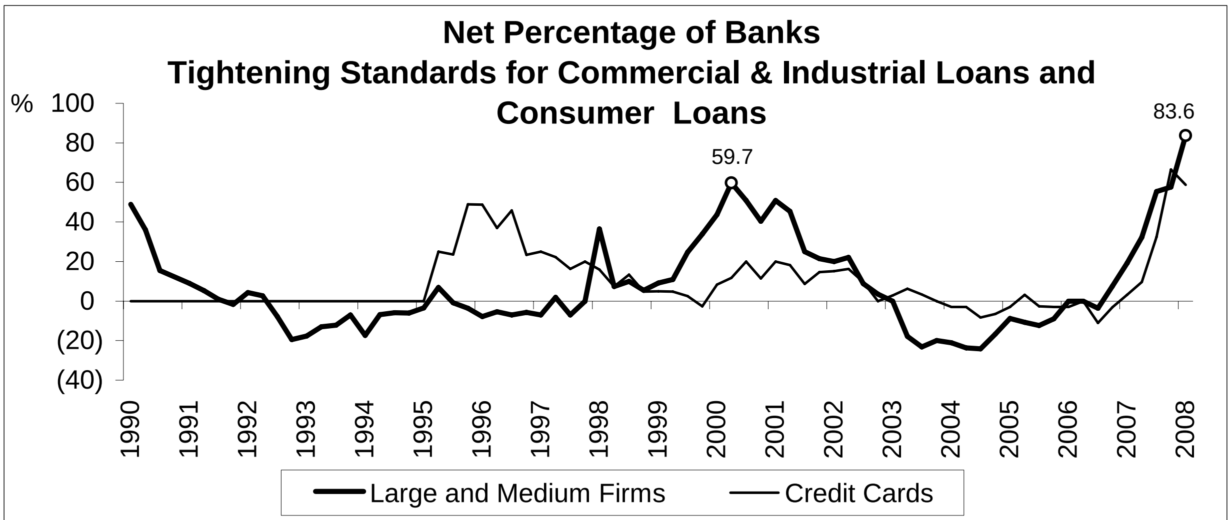
[4] Asset-backed securities (ABS) are securities that are based on a pool of assets. Cash flow from ABS are backed by the principal and interest payment of the underlying assets such as mortgages loans, credit card loans, and car loans. Mortgage-backed securities (MBS) are securities that are based on a pool of mortgages, in which cash flow is backed by the principal and interest payment of underlying mortgage loans.

[5] Ari Levy and Caroline Salas, "Obama Becomes Banker-in-Chief in Credit Market Freeze (Update1)," *Bloomberg.com*, January 20, 2009, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aBKDY

also passed a $700 billion financial rescue package. Of the $700 billion, the U.S. Treasury allocated $250 billion to buying shares in the nation's banks, effective October 27, 2008. The purpose of the $250 billion was to stabilize the commercial paper market, and banks are expected to buy back their shares from the government within the timeframe specified by the Trouble Assets Relief Program (TARP).[6] To further lubricate the credit market, the Federal Deposit Insurance Corporation (FDIC) will temporarily guarantee bank-to-bank loans for up to three years and will expand government insurance to cover all non-interest bearing accounts, in effect aiding businesses in their day-to-day operations.

Serious issues with credit and liquidity still remain, inhibiting the ability of companies and citizens to obtain credit to finance daily activities. As a result, the Fed and the government have continued to act.[7] As banks are unable to raise capital, they will be unable to lend money. In addition, lending standards have been tightening for some time, and have become even tighter despite actions by the federal government and the Federal Reserve (see Figure 6). For example, obtaining a mortgage now requires a larger down



Note: Data is quarterly through 2008:Q4. Bank data taken from a survey of approximately sixty large domestic banks and twenty-four U.S. branches and agencies of foreign banks.

Sources: Board of Governors of the Federal Reserve System: Senior Loan Officer Opinion Survey on Bank Lending Practices, October 2008.

Figure 6

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yojlxfk# (Last Updated: January 20, 2009 05:48 EST).

[6] TARP-elect institutions pay 5 percent interest in the first five years for their preferred stock, and quarterly payments of 9 percent, thereafter. See Troubled Assets Relief Program Under the Emergency Economic Stabilization Act of 2008, Public Law no. 110-343, 110th Congress, October 3, 2008.

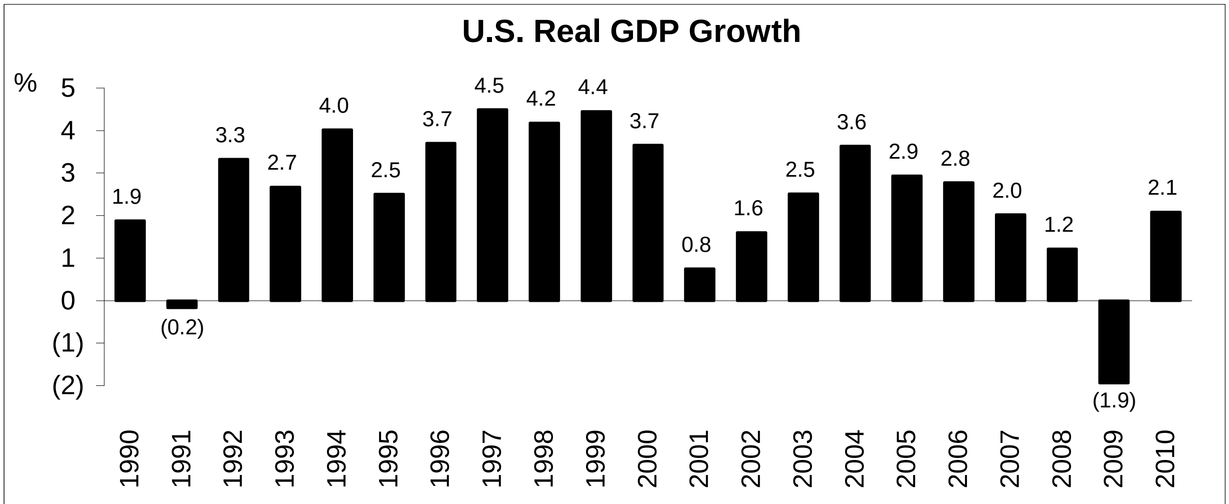
[7] For more detailed discussion on the events of the credit crunch, see the NYS Assembly, *Midyear Update*, November 5, 2008, http://www.assembly.state.ny.us/comm/WAM/20081105/.

payment and a higher credit score. For outstanding credit, default rates are jumping. Charge-off rates for real estate and consumer loans as reported by the Federal Reserve were at high levels at the latest reporting in the third quarter of 2008.[8] These levels will likely be even higher in the coming quarters.

As the economy continues to falter, consumers, business, and governments remain under pressure. Funds are widely needed across the country, as many states are experiencing higher than usual unemployment rates and large losses in tax revenue due to the economic downturn. The new administration has proposed a fiscal stimulus bill worth over $800 billion that is being considered by Congress. The fiscal stimulus includes provisions which extend funds to state and local governments for Medicaid matching, infrastructure projects, grants to invest in the development of green infrastructure and technology, and numerous tax cuts for businesses and individuals. The timeline and exact components of a federal package are still uncertain.

Gross Domestic Product

The U.S. economy, as measured by real GDP growth, grew by an estimated 1.2 percent in 2008, after expanding 2.0 percent in 2007 (see Figure 7). Accounting for the slowdown in 2008 is slower growth in personal consumption spending and a continued



Note: Data for 2008 is estimated; 2009 and 2010 are forecasts.
Sources: Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 7

[8] Charge-offs are the value of loans removed from the books and charged against loss reserves for insured U.S.-chartered commercial banks, and are measured net of recoveries as a percentage of average loans and are annualized.

decline in private investment spending (see Figure 8). A continued falloff in residential construction activity is primarily responsible for the weakness in overall private investment spending.

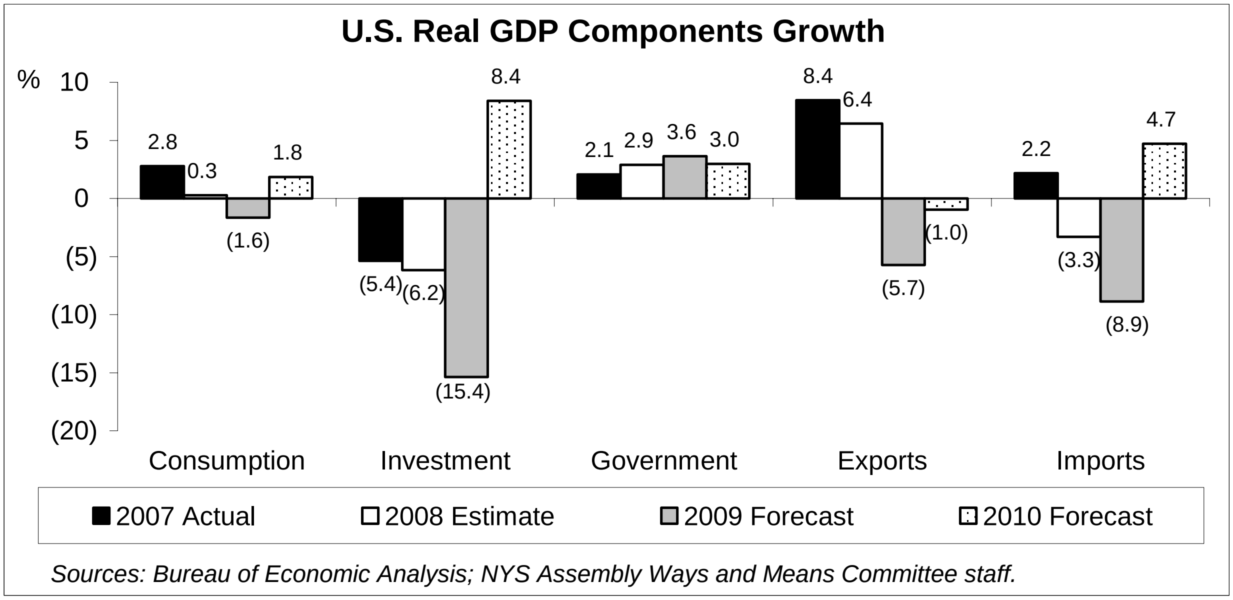


Figure 8

U.S. real GDP is forecast to decline 1.9 percent during 2009 as the turmoil in the financial sector weighs on households and businesses. It will be the first decline in overall economic growth since 1991, and along with 1982, when GDP also declined 1.9 percent, is the largest yearly decline since WWII. Personal consumption spending growth is forecast to decline 1.6 percent during 2009 (the first annual decline since 1980), as consumers become increasingly cautious and squeezed by tight credit conditions, rising unemployment, and falling financial and home wealth. Residential construction activity is expected to continue to slide until the fourth quarter of 2009. With business capital spending also expected to weaken, private investment spending is forecast to decline 15.4 percent in 2009. With a large amount of fiscal stimulus geared toward public projects and services, the public sector as a whole is expected to help soften the blow to overall economic growth. During 2009, as global economic growth deteriorates, the foreign sector will likely be more of a drag on the U.S. economy. With the Fed's vigorous easing and a large fiscal stimulus, financial markets are expected to stabilize and the housing market is expected to recover towards the end of 2009. The national economy is forecast to grow 2.1 percent in 2010.

Consumption

Personal consumption spending ceded to the challenging economic conditions that were cultivated by higher prices on energy and food, falling home prices, tightened credit conditions, and a weakening labor market. The tax rebates that were sent to households in the second quarter of 2008 provided temporary support for growth in personal consumption spending.[9] However, as the effect of these tax rebates diminished and elevated commodity prices in early to mid-2008 compared to 2007 placed additional pressure on disposable income, consumers felt the squeeze and continued to cut back on spending. As a result, personal consumption spending growth, adjusted for inflation, slowed to 0.3 percent in 2008, after growing 2.8 percent in 2007 (see Figure 9).

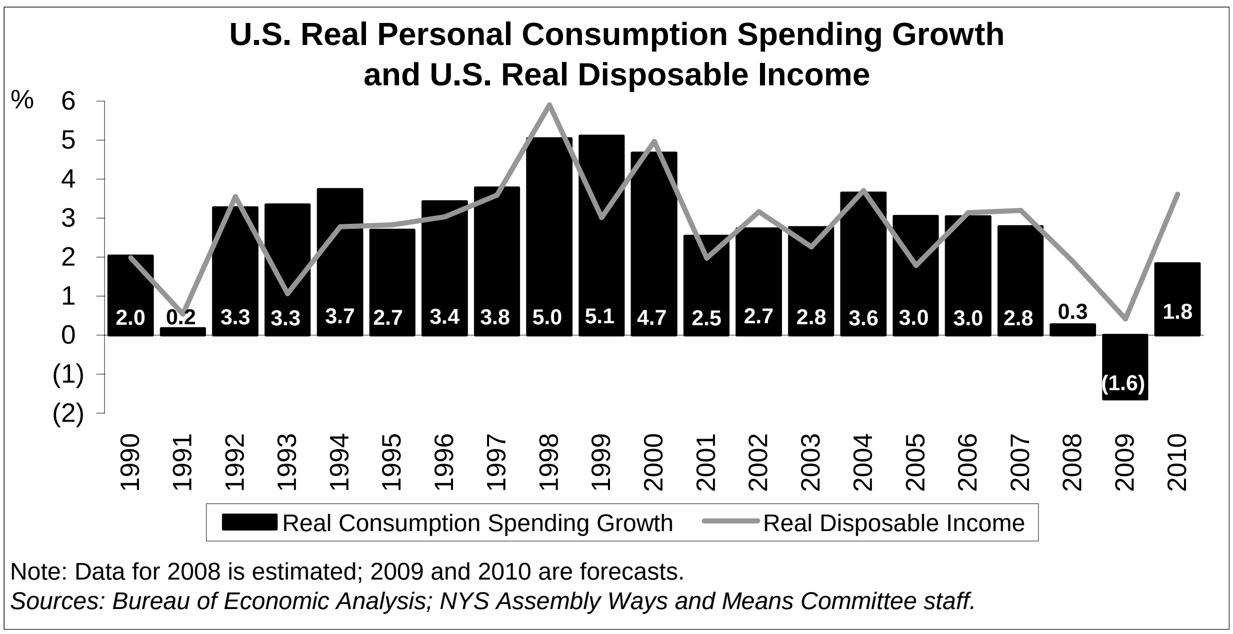


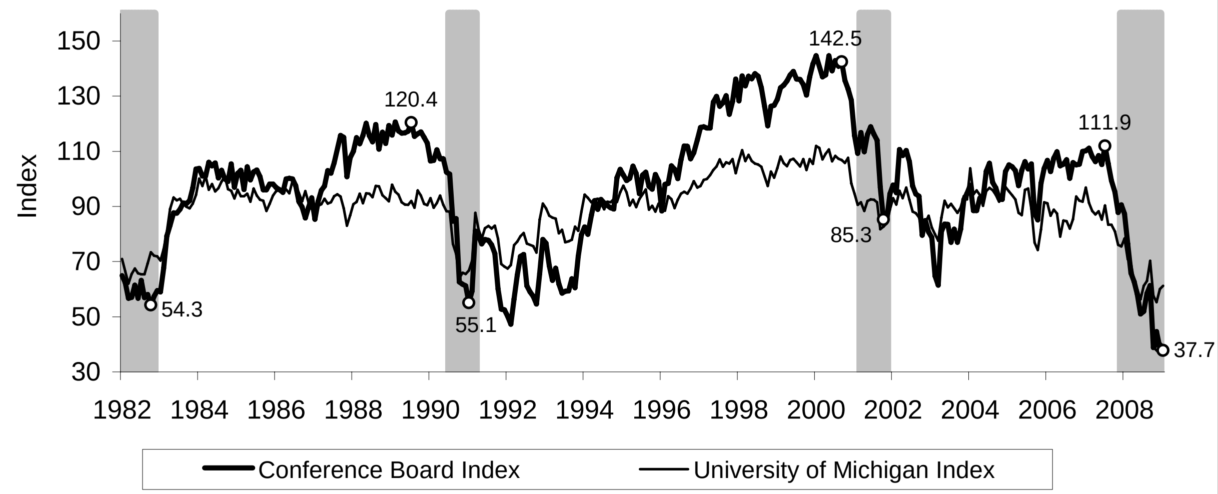
Figure 9

Real consumption spending is expected to contract further in 2009 as households laden in debt try to balance debt obligations with other financial responsibilities. The crisis in the financial markets and its impact on household wealth and credit access, along with slower income growth and higher unemployment, will continue to weigh on households (see Figure 10).[10] The downward pressure that these factors exert on consumer spending will outweigh the effects of tax cuts, tax credits, and other transfer income that households

[9] For details on this fiscal stimulus package, see the Economic Stimulus Act of 2008, Public Law no. 110-185, 110th Congress, February 13, 2008.

[10] Consumer confidence fell to its lowest level in January 2009 since the series started in 1978.

are expected to receive through the fiscal stimulus being considered in Congress. Consequently, real personal consumption spending is forecast to decline 1.6 percent in 2009, the first yearly falloff in consumer spending since 1980.



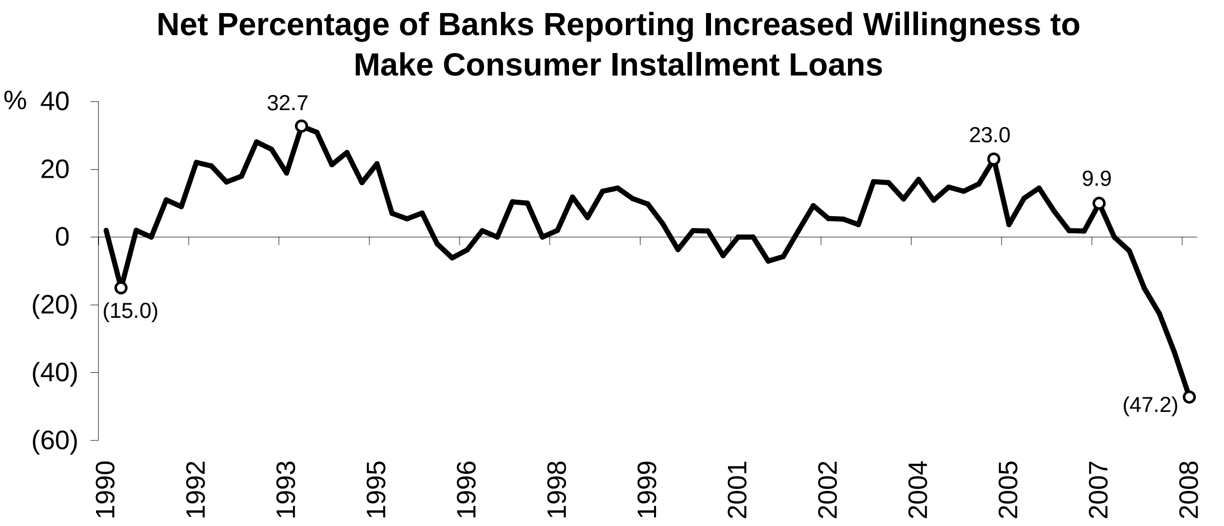
Note: Data is monthly through January 2009. The shaded areas represent recessions.
Sources: Conference Board; University of Michigan.

Figure 10

In 2010, real personal consumption spending is forecast to rebound 1.8 percent. While the fiscal stimulus will have a larger impact on consumer spending than in 2009, inflationary pressures will lead to higher wages, and higher overall economic growth will also encourage personal consumer spending.[11]

Banks first displayed evidence of their unwillingness to lend to households in the third quarter of 2007 (see Figure 11). With the housing and financial markets deteriorating and delinquency rates rising, banks became increasingly concerned about the indebtedness of households and their ability to repay loans. Credit standards tightened, resulting in a dramatic increase in the number of banks less willing to provide loans, far beyond conditions seen in 1991. At its peak in the third quarter of 2008, the Fed reported that 67.4 percent of banking institutions had tightened credit standards on consumer loans with a corresponding 34 percent that were less willing to lend. In the fourth quarter of 2008, 64.2 percent of banks tightened standards, while 47.2 percent were less willing to lend.

[11] Pre-stimulus, real consumption spending is forecast to fall 2.3 percent in 2009, and decline 0.3 percent in 2010.



Note: Data is quarterly through 2008:Q4. Bank data taken from a survey of approximately sixty large domestic banks and twenty-four U.S. branches and agencies of foreign banks.
Source: Board of Governors of the Federal Reserve System: Senior Loan Officer Opinion Survey on Bank Lending Practices, October 2008.

Figure 11

The ripple effects of tightened credit standards continue to burden households as resources that were once readily available to finance spending activities are withering. Tightened credit standards and the continued fall in home prices have curtailed households' access to mortgage equity withdrawal since the third quarter of 2006. On average, total home equity withdrawals by households fell an estimated $31.0 billion in 2008 from 2007 (see Figure 12). As credit conditions ease and the housing market stabilizes, a boost in personal consumption spending growth is expected in 2010.[12]

An unintended effect of tax rebates in 2008 was the improvement of the saving rates of households.[13] Preliminary findings on the effects of the Economic Stimulus Act of 2008, in which households received between $300 and $1,200, suggest that households spent between 20 percent and 30 percent of their tax rebates.[14] Households tend to pay down

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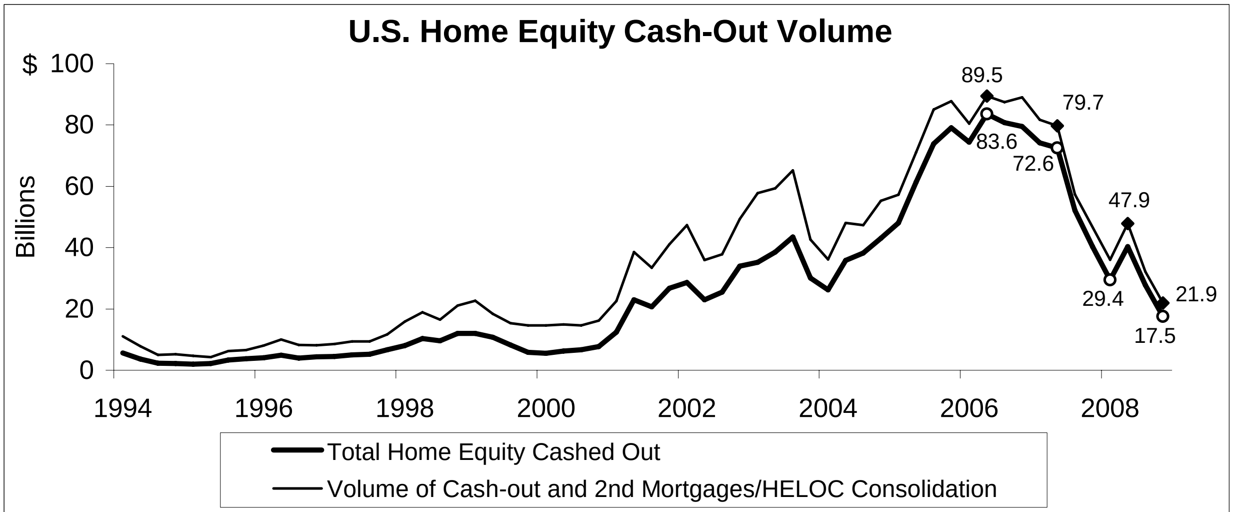
[12] Personal consumption spending growth is expected to increase 0.3 percentage point from the easing of credit conditions. In the first half of 2008, tightening credit reduced personal consumption spending by 1.3 percentage points. See Macroeconomic Advisers, *Macro Focus*, vol. 3, no. 9, October 8, 2008.

[13] In May 2008, when the first round of rebates was sent to households, the savings rate increased to 5.9 percent from 0.02 percent in the prior month.

[14] Macroeconomic Advisers, "So Far, So Good: A Progress Report on the 2008 Income Tax Rebates," *Macro Focus*, vol. 3, no. 8, August 2008, 1-5; Matthew D. Shapiro and Joel Slemrod, "Economists: Most Stimulus Went Into Savings," *WSJ Online*, August 12, 2008, Real Time Economics.

debt during economic downturns, which also contributes to higher savings. Even though higher saving rates dampen consumer spending, savings create a financial buffer in an arduous economy. Long term, this cushion can act as an impetus to consumption spending recovery as consumers regain their confidence. The extent to which households continue to cut back on spending will be important in the determination of the length of the recession.



Note: Data is quarterly through 2008:Q4. Data for 2008 is estimated. *Total Home Equity Cashed Out* is through the refinancing of prime, first-lien conventional mortgages. *Volume of Cash-out and 2nd Mortgages/HELOC Consolidation* is the total increase in the principal balances of refinanced first-lien mortgages, which includes the cash-out amounts; the consolidation of existing second mortgages or home-equity lines of credit into the first lien; and loan origination costs.

Source: Freddie Mac Refinance Activities Reports, January 30, 2009.

Figure 12

The spillover effect of the depressed housing market into the financial markets has taken its toll on the balance sheet of households. On average, the net worth of households fell $5.6 trillion or 9.1 percent in the first nine months of 2008 compared to 2007, as asset prices have spiraled downward. This was the largest decline since the series began in 1945 (see Figure 13). Corporate equity holdings have decreased as equity markets succumbed to falling corporate profits and tightened credit conditions. Households' real estate value growth turned negative in 2007 for the first time since 1945, and continues to decline due to considerable depreciation in home prices. Many homeowners now have mortgages that are higher than the value of their home (see the Housing Market section on page 21). As a result, households have been changing the composition of their portfolios, but the net worth of households is not anticipated to rebound until 2010. The diminished wealth of households should exert more downward pressure on real personal consumption spending.[15]

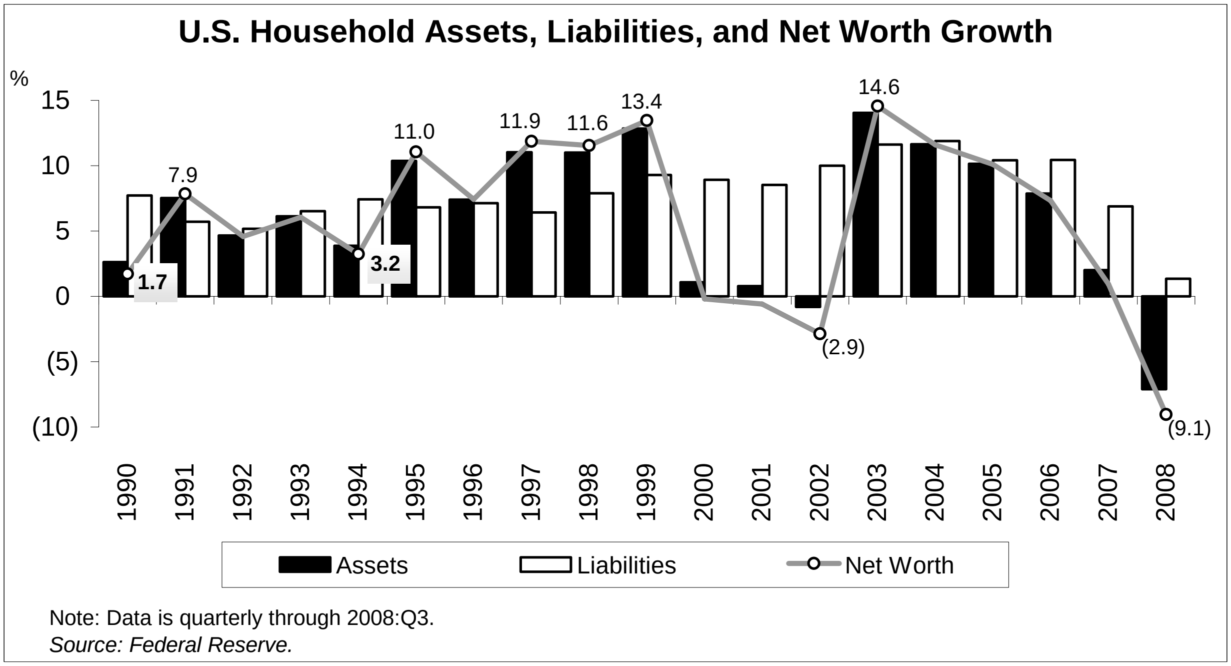


Figure 13

Additional pressures on personal income from a weakening labor market suggest more stress on households to meet daily needs. When household debt rises as a proportion to personal income, higher delinquency rates are at hand. The ratio of consumer outstanding credit to personal income is trending upward. The persistent tightening of credit conditions, which has led to a drop in mortgage equity withdrawal (MEW), forced consumers to seek other forms of credit. Between December 2006 and July 2008, growth in credit card usage was at its highest rates since 2001. While growth of revolving credit may have a short-term positive effect on consumption spending, concern arises about the additional financial stress on households. Delinquency rates have been rising since May 2007 and continue to get worse (see Figure 14). As revolving credit declines and households try to balance their financial obligations with less access to credit, consumer spending will be further burdened.[16]

[15] The Congressional Budget Office estimates that the wealth effect will subtract 0.75 percentage point from the growth of average consumption spending in 2009, and reduced growth in 2008 by 1.1 percentage points. See Congress of the United States, Congressional Budget Office Testimony: Statement of Douglas W. Elmendorf, Director, "The State of the Economy and Issues in Developing an Effective Policy Response," before the Committee on the Budget, U.S. House of Representatives, January 27, 2009.

[16] While total consumer credit growth has been decelerating since November 2007, growth in revolving

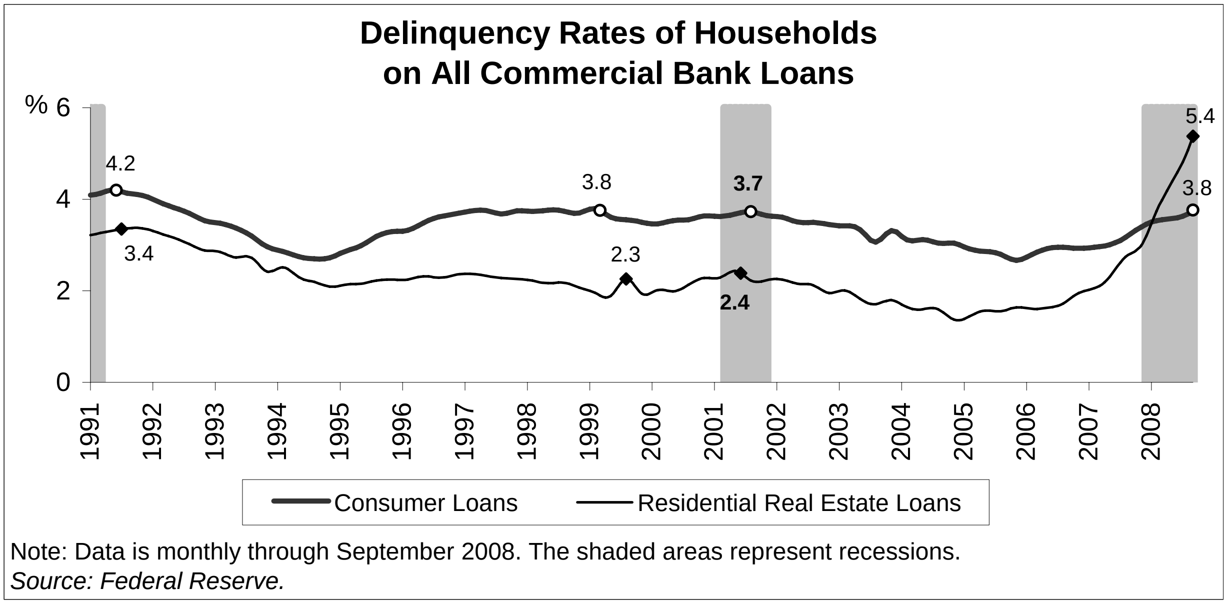


Figure 14

Historically, the decrease in personal consumption spending was the main vehicle that promulgated slow economic growth into recession.[17] Most recessions since 1969 have exhibited negative growth in durable goods combined with slow or declining growth in nondurable goods and services purchased by consumers (see Figure 15). Personal consumption spending accounts for more than two-thirds of overall spending; therefore, consumer spending will be crucial to the recovery of overall economic growth from the current recession.

Growth in spending on durable goods fell 4.4 percent in 2008, primarily due to a falloff in light motor vehicle sales.[18] On average, sales of light motor vehicles fell 18.5 percent in 2008 compared to 2007. The pullback in durable goods spending growth was also attributed to the slowdown in spending related to home purchases. With light vehicle sales and spending on home purchases expected to decline further in 2009, spending on durable goods is forecast to fall 10.3 percent in 2009. As the housing market stabilizes and credit conditions ease, spending on durable goods is forecast to increase only 2.0 percent in 2010.

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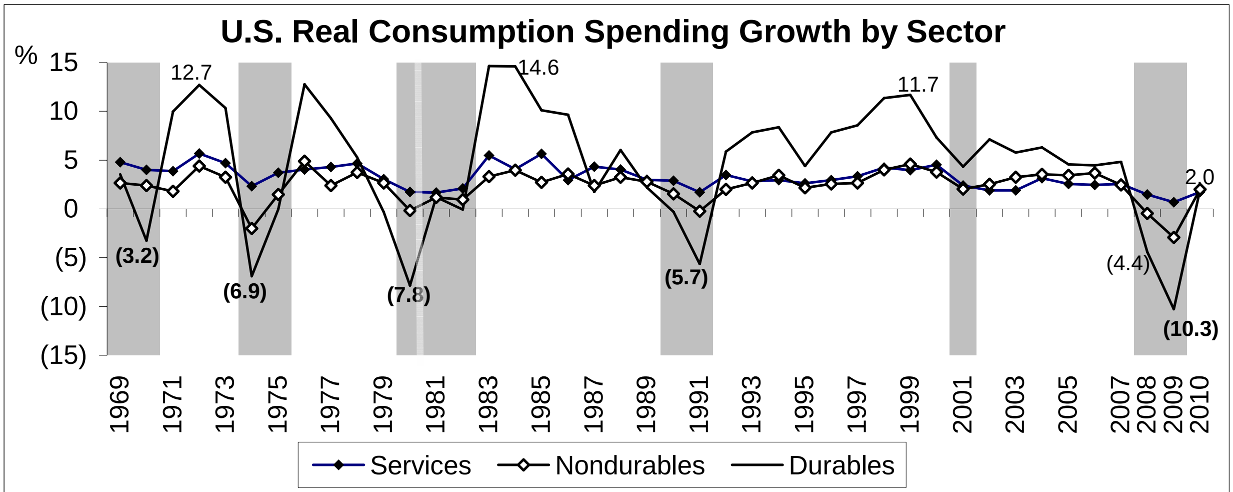
credit began to slow in March 2008.

[17] Olivier Blanchard, "What Caused the Last Recession? Consumption and the Recession of 1990-91," *American Economic Review*, vol. 83, no. 2, May 1993, 270-4; Carl Walsh, "What Caused the 1990-1991 Recession?" *Economic Review*, Federal Reserve Bank of San Francisco, no. 2, 1993, 33-48.

[18] Light motor vehicles have a gross weight of up to 10,000 pounds. They include cars, light conventional pickups, compact pickups, sport-utility vehicles, and passenger vans.



Note: Data for 2008 is estimated; 2009 and 2010 are forecasts. The shaded areas represent recessions.
Sources: Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 15

Elevated energy prices that were passed through to food and other nondurable goods prices in early and mid-2008 have placed pressure on real disposable income, restraining consumer spending on these and other consumer items. Total personal consumption spending on nondurable goods is estimated to have declined 0.5 percent in 2008.

In the second quarter of 2008, spending on energy declined 6.4 percent compared to the same period in 2007, while food consumption grew 4.1 percent. In the third quarter of 2008, energy consumption spending fell an additional 13.4 percent, and spending on food dropped 7.3 percent relative to the third quarter of 2007. While spending on food continued to fall in the fourth quarter of 2008, falling energy prices contributed to a 25.8 percent rise in energy spending. Spending on nondurable goods is expected to decrease by 2.9 percent in 2009 even with lower energy prices. In 2010, nondurable goods spending growth is anticipated to rebound to 2.0 percent as growth in disposable income improves.

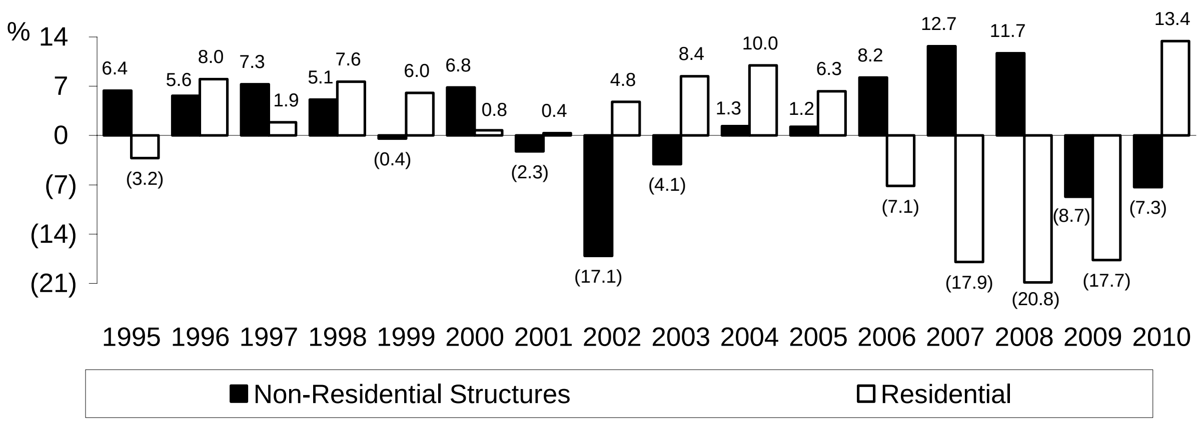
Consumer spending on services grew 1.5 percent in 2008, due to a modest increase in spending related to services for household operations, housing, transportation, and medical care. As spending growth on many of these services continues to slow, growth in spending on services will slow to 0.7 percent in 2009. With disposable personal income and overall economic growth expected to gradually improve, service consumption spending will increase by 1.7 percent in 2010.

Investment

Overall private investment spending declined an estimated 6.2 percent in 2008. As the correction in the housing market continues, and tight credit conditions and a weakening economy weigh on business confidence, business spending is forecast to continue to decline in 2009 before recovering by 8.4 percent in 2010. Investment is forecast to decline for more quarters than the average of previous recessions. The Ways and Means Committee staff forecast calls for private investment to decline for eight quarters, compared to the average in post-WWII recessions of 3.8 quarters. The current forecast is for a decline of 23.1 percent in investment, compared to a fall of 16.5 percent and a decrease of 12.7 percent in the 2001 and 1990-91 recessions, respectively.

As the correction in the housing market continued, residential construction spending declined further by 20.8 percent in 2008, after falling 17.9 percent in 2007 (see Figure 16). Despite robust gain in business spending on information-related equipment and software, business spending on overall equipment and software is estimated to have declined 2.9 percent in 2008 compared to 2007.

U.S. Real Private Construction Investment Growth



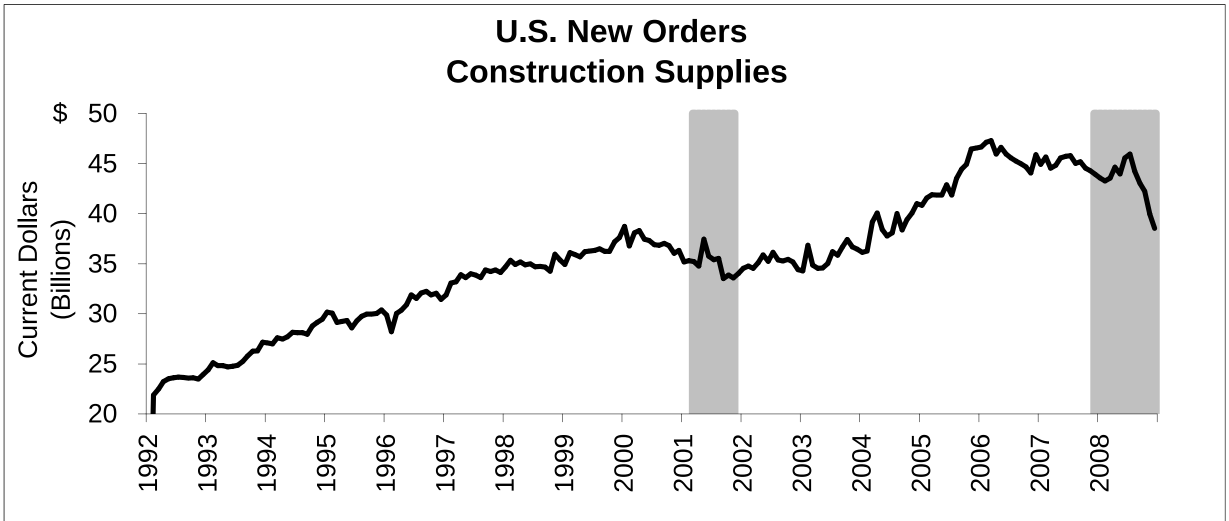
Note: Data for 2008 is estimated; 2009 and 2010 are forecasts.
Sources: Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 16

One bright spot in business spending in 2008 was nonresidential construction spending. After three consecutive years of sizable decline followed by two consecutive years of tepid recovery, business construction activity finally rebounded strongly in 2006 and that trend continued in 2007 and 2008. Business spending on structures grew

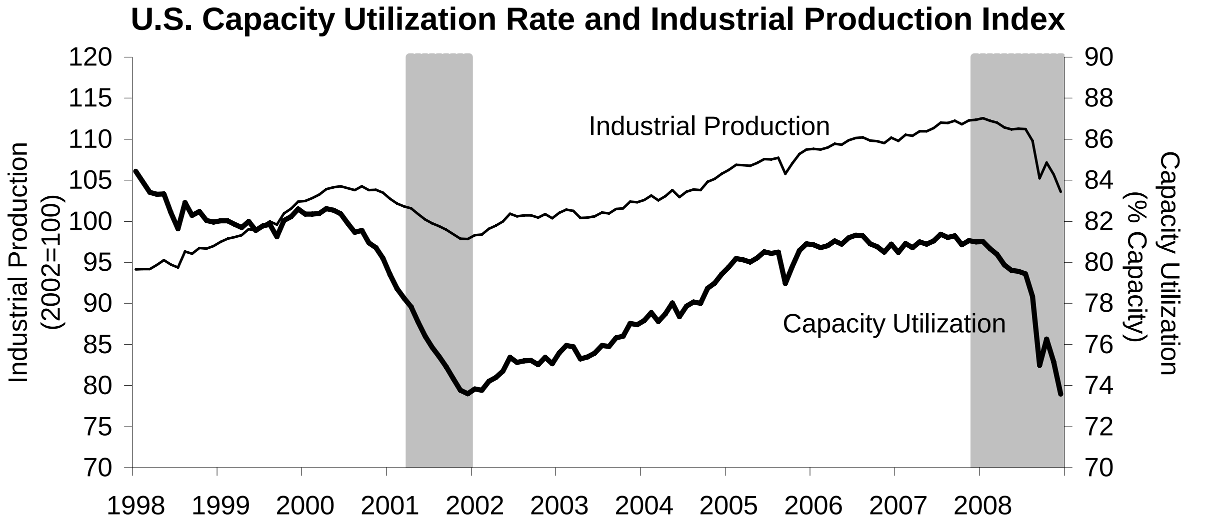
12.7 percent during 2007, marking the fastest yearly expansion in more than twenty years. Growth slightly slowed to 11.7 percent in 2008.

Due to large inventories of unsold homes and increasing foreclosures, residential construction activity will likely decline further throughout most of 2009 at another double-digit annual rate of 17.7 percent. National economic growth is forecast to recover gradually starting from the second half of 2009 and the excesses in the housing market are expected to be worked off towards the end of 2009. Residential construction spending is forecast to grow 13.4 percent during 2010. Nonresidential construction activity will likely weaken further in 2009, as indicated by the recent downward trend in new orders for construction supplies as well as the sharp decline in capacity utilization in recent months (see Figure 17 and Figure 18). With tight credit conditions and rising unemployment weighing on the demand for office and retail space, nonresidential construction spending is forecast to decline 10.0 percent during 2009 and another 0.4 percent during 2010.



Note: Data is monthly through December 2008. The shaded areas represent recessions.
Source: U.S. Census Bureau.

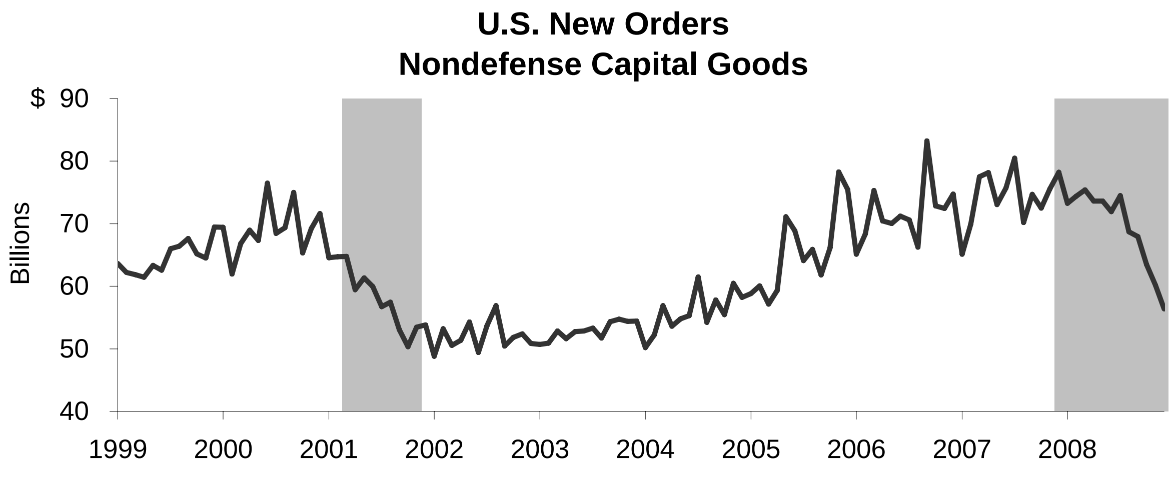
Figure 17



Note: Data is monthly through December 2008. The shaded areas represent recessions.
Source: Federal Reserve.

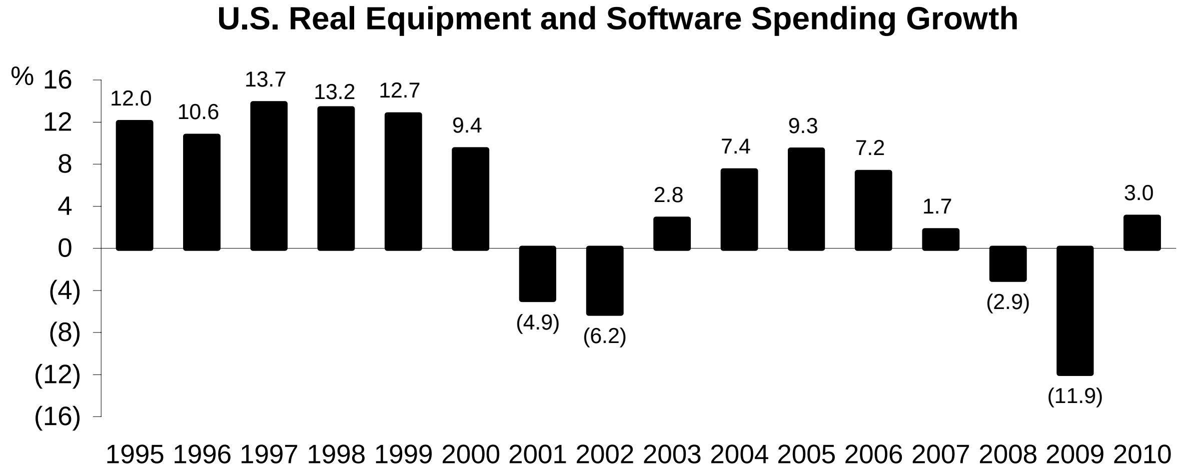
Figure 18

Business spending on equipment and software decreased 7.5 percent (annualized rate) in the third quarter of 2008, the third consecutive quarterly decline. The decline was driven by a continued sharp contraction in business spending on industrial and transportation equipment, as well as information-related equipment and software spending. The recent data on nonmilitary capital goods orders is indicative of further weakening in overall business capital spending in the near future (see Figure 19). It is forecast to decrease 11.9 percent in 2009, followed by a 3.0 percent recovery in 2010 (see Figure 20).



Note: Data is monthly through December 2008. The shaded areas represent recessions.
Source: U.S. Census Bureau.

Figure 19



Note: Data for 2008 is estimated; 2009 and 2010 are forecasts.
Sources: Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 20

Housing Market

Housing accounts for the largest portion of household wealth. The housing market has emerged as one of the most important factors that influence the overall state of the economy, and has given both the State and national economies a big boost, especially following the 2001 recession. Home prices had been steadily increasing since the end of the 1991 recession. From the first quarter of 2002 to the second quarter of 2006, national home prices appreciated by 61 percent, or more than 15 percent per year. The housing market started to correct itself in the second half of 2006, and has since become a drag on the economy. In December 2008, housing starts fell 45.0 percent from December 2007 to the lowest level since the series started in the late 1940s. Similarly, housing permits dropped 50.6 percent in December 2008 from December 2007.

Since its peak in the second quarter of 2006, national home prices have declined by more than 20 percent, with the highest depreciation rate in the areas that experienced the fastest growth during the boom period. The S&P/Case-Shiller home price index fell 16.6 percent in the third quarter of 2008 from the same period a year earlier. This was the largest drop in the index since the series began in 1987 (see Figure 21). Declining home values have contributed to the negative equity many homeowners have on their mortgages. As of September 30, 2008, it was estimated that more than 7.5 million mortgages or 18.3 percent of all properties were in negative equity, with another 2.1 million mortgages approaching negative equity.[19] This could create an incentive for homeowners to default on their mortgages.

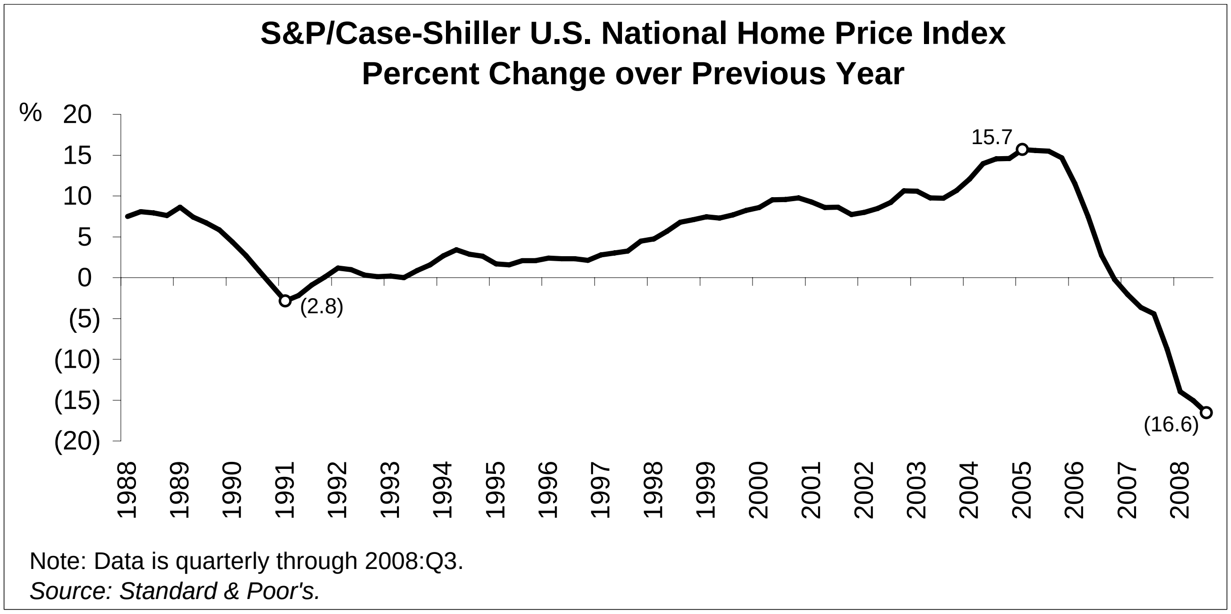


Figure 21

During the housing boom, many households chose to finance their homes with non-traditional mortgages such as adjustable rate mortgages (ARMs), balloon payment, or interest-only. With adjustable interest rates resetting higher and home prices falling, many households, especially those borrowers who have less than perfect credit (subprime borrowers), are having difficulty making their payments.

The issues in the subprime mortgage market have caused a tightening of lending standards. Tighter lending standards have made it more difficult for households to purchase a home or refinance an ARM into a traditional fixed rate mortgage (FRM). Some homeowners are forced to sell their houses below market value or default on their loans. National foreclosure filings in 2008 were up 81.2 percent from 2007.[20]

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[19] First American CoreLogic's data report is based on 42 million properties that have a first and/or second mortgage, which account for over 80 percent of all mortgages in the U.S. See First American CoreLogic, "First American CoreLogic's Negative Equity Data Report" (as of September 30, 2008), October 29, 2008; http://www.loanperformance.com/infocenter/library/FACL%20Negative%20 Equity_final_102908.pdf.

[20] RealtyTrac Staff, "Foreclosure Activity Increases 81 percent in 2008," *RealtyTrac.com* (Irvine, CA), January 15, 2009, http://www.realtytrac.com/ContentManagement/pressrelease.aspx?ChannelID=9&ItemID=5681&accnt=64847.

Although new homes available for sale have been declining, rising foreclosures and tightening lending standards have led to an oversupply of homes. The national inventory of new homes rose from an average of 6.4 months in 2006 to 11.2 months in 2008. Similarly, inventory of existing homes rose from an average of 6.5 months in 2006 to 10.4 months in 2008.

Going forward, it is expected that activity in the housing market will continue to weaken. High housing inventory, a weak employment and income growth outlook, and low demand for housing will likely prolong the current correction in the housing market and restrain home prices from appreciating anytime soon. Housing starts are forecast to rebound in the second half of 2009, however, home sales and home prices are likely to continue to decline or remain stable throughout 2009 and into 2010.

Government Spending

Federal government spending growth slowed to 1.6 percent in 2007 from 2.3 percent in 2006 due to slower growth in nondefense spending. In 2008, federal spending increased 5.9 percent from significant growth in both defense and nondefense spending. Defense spending growth was mainly attributed to higher growth in the compensation of civilian and military employees, and larger outlays for the maintenance and procurement of military equipment. Growth in nondefense spending arose from an increase in compensation growth and more investment in structures, equipment, and software.

In 2009, higher outlays for investments in structure and equipment from the American Recovery and Reinvestment Act (ARRA) of 2009 will contribute to higher federal spending growth.[21] The anticipated pull down of troops in 2009 from Iraq and the troop increase in Afghanistan will also boost federal expenditures. Federal government spending is expected to grow 6.2 percent in 2009, and is anticipated to slow to 3.5 percent in 2010 as the federal government reins in compensation for civilian and military personnel and as the spending on nondefense encouraged from the fiscal stimulus package diminishes. Restrained defense spending on gross investments will also contribute to the slowdown in federal spending (see Figure 22).

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[21] American Recovery and Reinvestment Act of 2009, 111th Congress, H.R.1—Title: Making supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and state and local fiscal stabilization, for fiscal year ending September 30, 2009, and for other purposes: as passed by the House of Representative, January 28, 2009.

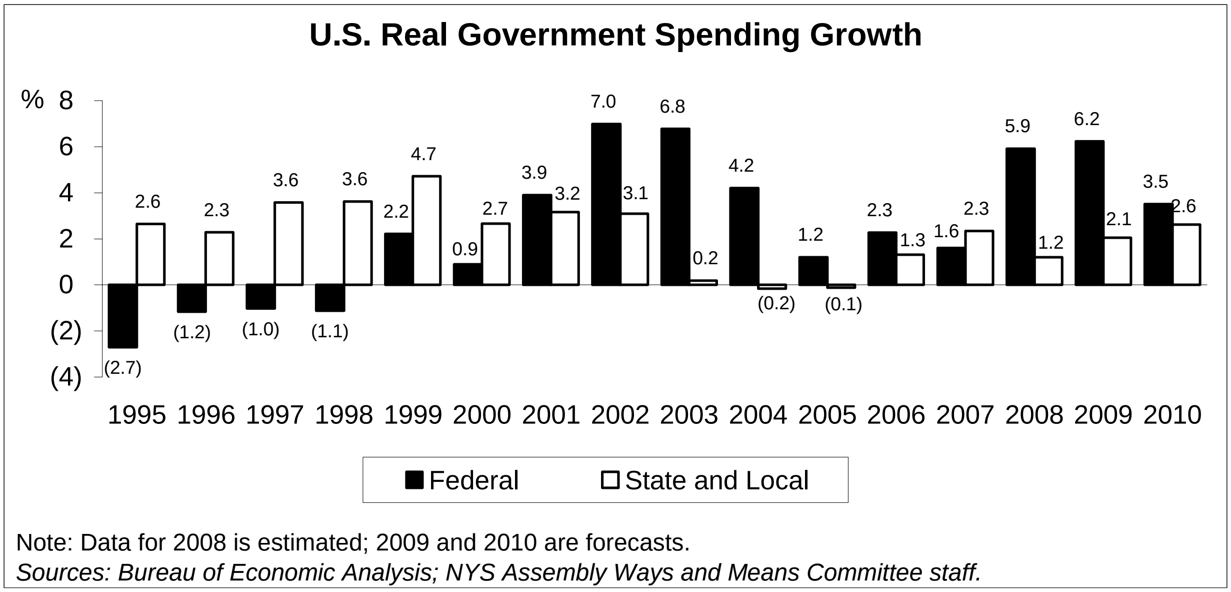

Figure 22

The hurricane season for 2008 was more active than in 2007. This suggests higher expenditures related to disaster preparedness such as flood insurance, disaster relief, and agricultural programs. Natural disasters remain a constant risk to the forecast for federal government spending. In addition, since the economy is expected to continue to worsen in 2009, outlays on transfer payments, including unemployment insurance and temporary assistance, could significantly increase as more people who lose their jobs or otherwise fall on hard times seek aid.

The federal budget deficit increased to $454.8 billion or to 3.2 percent of GDP in FY 2008 from $161.5 billion in 2007 (see Figure 23).[22] The substantial increase in the budget deficit was largely from the Economic Stimulus Act of 2008 that included tax rebates to households and higher than anticipated defense spending. Growth expectations for the federal budget deficit for FY 2009 will be markedly higher than in FY 2008. The Troubled Asset Relief Program (TARP) included in the Emergency Economic Stabilization Act of 2008 that contained the provision for the bailout of insolvent financial institutions, will likely be the main factor contributing to the expansion of the budget deficit.[23] The budget deficit could possibly escalate to as much as 8.3 percent of GDP or $1.2 trillion in

[22] The federal budget deficit in FY 2007 was the lowest level in five years. See Financial Management Service, U.S. Department of Treasury, *Final Monthly Treasury Statement*, September 2008.

[23] See the Emergency Economic Stabilization Act of 2008, Public Law no. 110-343, 110th Congress, October 3, 2008.

FY 2009.[24] This would be the largest deficit since 1983. In addition, the ARRA is expected to infuse $827 billion into the economy, which would expand the federal deficit.

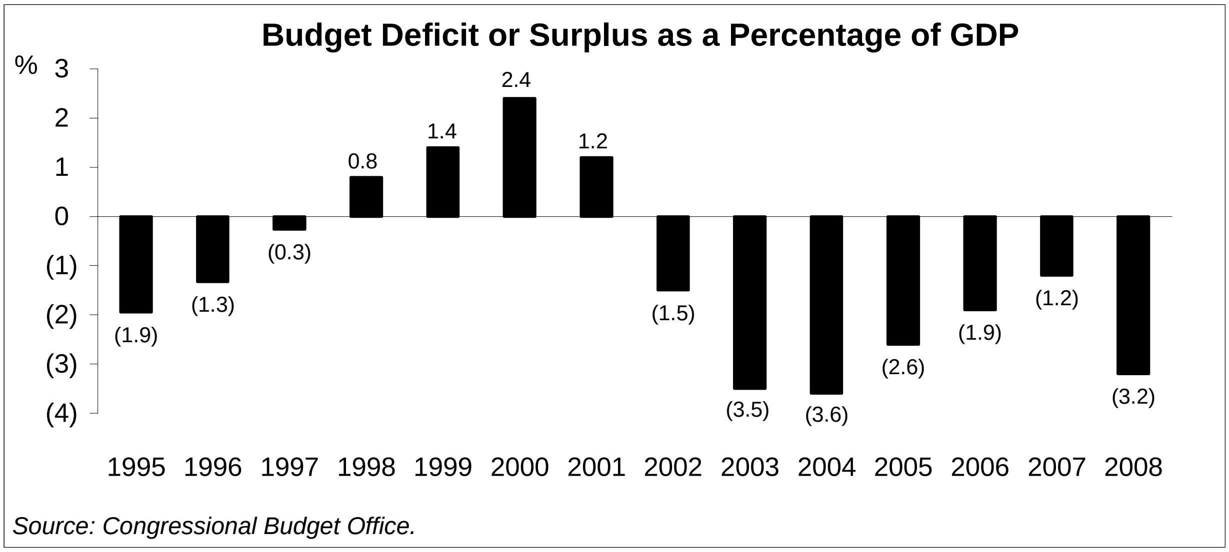

Figure 23

State and local government spending grew 2.3 percent in 2007 due mainly to higher outlays on investment in structures. In 2008, state and local spending growth slowed to 1.2 percent as a result of lower revenue expectations as well as less investment in structures, and equipment and software. Historically, states try to maintain spending levels in an economic downturn by initially drawing down reserve funds. However, as revenue expectations are diminished and "rainy day" funds are depleted, spending cutbacks become necessary and many states also raise taxes.[25] Since most states operate under balanced budget requirements, these options are the most readily used to alleviate the fiscal stress of lower revenues in a deteriorating economy.

In the 2001 recession, state and local government spending growth increased 0.5 percentage point from the prior year, and then slowed by only 0.1 percentage point in 2002. Growth fell 2.9 percentage points in 2003 from 2002 and continued to decelerate until 2006. As state deficits rose, Congress enacted a fiscal relief package that included

[24] Congress of the United States, Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2009 to 2019*, January 2009.

[25] "Rainy day" funds were the equivalent of 10.5 percent of general fund budgets for states or $69 billion at the end of fiscal year 2007. See Center on Budget and Policy Priorities, "States in Trouble Due to Economic Downturn," *Policy Points*, updated January 29, 2009.

$20 billion in assistance to states.[26] The decline in state and local spending in 2003 to 2005 could possibly have been higher without the fiscal relief for the states.

The falloff in state and local spending was primarily due to a significant drop in income tax revenues for many states. As the stock markets plummeted in 2001, so did capital gains, which fell for two straight years. The decline in capital gains had a devastating impact on state budgets that relied heavily on revenues from this source. The current deterioration of the financial markets since the fourth quarter of 2007 and its impact on capital gains is of concern to state and local governments as the effects on revenues are forecast to be similar to 2001.

The continued depreciation of home prices since 2007 has put downward pressure on property tax revenues. The spillover of the housing market into the financial markets has resulted in significant losses by firms. Subsequently, states have lower corporate revenue expectations. As corporations incur losses, employees are laid off, cutting into wages and salaries, resulting in lower personal income tax collections by state and local governments. Falling income results in restrained spending by consumers, which lowers sales tax revenues expectations. In the third quarter of 2008, personal income tax grew 2.1 percent compared to 7.2 percent in the same quarter in 2007, sales tax collections rose 3.0 percent, and corporation income taxes declined 5.4 percent.[27]

The ossifying of credit markets, especially from mid-September to mid-October 2008, put additional strains on some states that rely on short-term borrowing to provide funds for day-to-day government operations. Tightened credit markets have made lending rates prohibitive and many financial institutions have been reluctant to purchase state and municipal offerings. In September 2008, Massachusetts sought to issue $750 million in revenue anticipation notes and was only successful after the third attempt. Many other states and municipalities have canceled, rescheduled, or postponed debt offering until the market becomes more favorable.[28] In October, revenue anticipation notes sales fell

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[26] The fiscal relief package included $10 billion for Medicaid assistance and $10 billion in grants based on state populations. See the Jobs and Growth Tax Relief Act Reconciliation Act of 2003, Public Law 108-27, 108th Congress, May 28, 2003.

[27] Donald Boyd and Lucy Dadayan, *State Revenue Report*, Rockefeller Institute of Government, no. 74, January 2009.

[28] California had a $4 billion RAN offering on October 14, 2008, with yields that ranged between 3.75 percent and 4.5 percent, dramatically higher than Treasury yields with similar maturity. On October 10, 2008, 10-year triple-A municipal yields were 117 percent of comparable Treasuries, and 30-year AAA tax exempt yields were 146 percent of 10-year Treasury yields. See Michael Scarchilli, "Calif. Market Close: Tax-Exempts Weaker; Cal Rans Price For Retail," *Bond Buyer*, October 14, 2008; and Jeremy R. Cooke, "Munis

60.5 percent compared to October 2007.[29] Though the credit markets have showed signs of some easing, states are seeking assistance from the federal government because of the continued decline in state revenues.

As a result, a significant portion of the ARRA will be allocated to state and local governments in the form of matching funds for Medicaid spending, block grants, and funds for public work projects.[30] This will alleviate some of the problems associated with the mounting budget deficits of states such as cutbacks on capital projects, layoffs of state employees, and cuts in healthcare and other programs. State and local government spending is forecast to increase 2.1 percent in 2009 and rise an additional 2.6 percent in 2010, primarily from the fiscal stimulus.[31]

Exports and Imports

Exports, in constant dollars, grew an estimated 6.4 percent in 2008, following 8.4 percent growth in 2007. Weakening global growth and a stronger U.S. dollar will likely cause exports to decline in 2009. Exports are forecast to decline 5.7 percent in 2009 and fall further by 1.0 percent in 2010. With a weakening U.S. economy, imports are forecast to decline 8.9 percent in 2009 before growing 4.7 percent in 2010 (see Figure 24).

Continuing problems in housing and credit markets, positive interest rate differential, and the investment opportunities in emerging economies kept the dollar value from appreciating in 2008. As world economic growth is expected to slow further in 2009, and the systemic risk in the global financial market rises, the dollar is forecast to appreciate in 2009 and depreciate slightly in 2010 (see Figure 25).

Extend Slump; New York City, Pennsylvania Deals Advance," *Bloomberg.com*, October 15, 2008.

[29] Patrick Temple-West, "New-Issue Volume Down Despite Rally," *Bond Buyer*, November 3, 2008.

[30] The National Income and Product Account (NIPA) definition of government spending does not include transfer payments such as Medicaid. However, spending on Medicaid is a major component of state spending. NIPA's definition is used for state and local government spending.

[31] Pre-stimulus, state and local government spending is forecast to fall 3.2 percent in 2009 and an additional 5.0 percent in 2010.

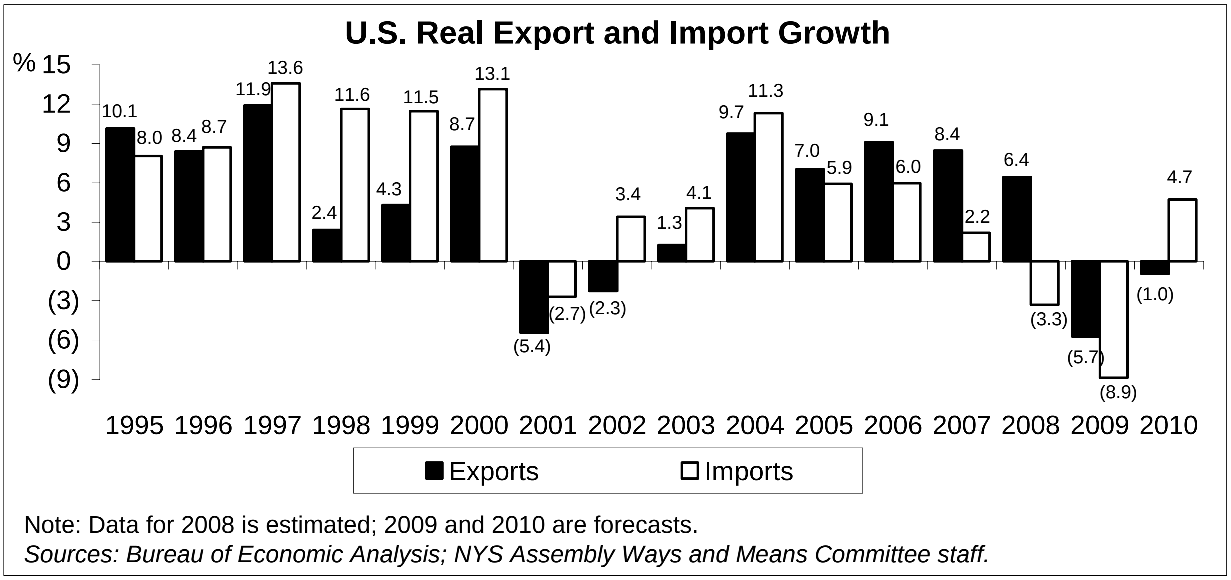

Figure 24

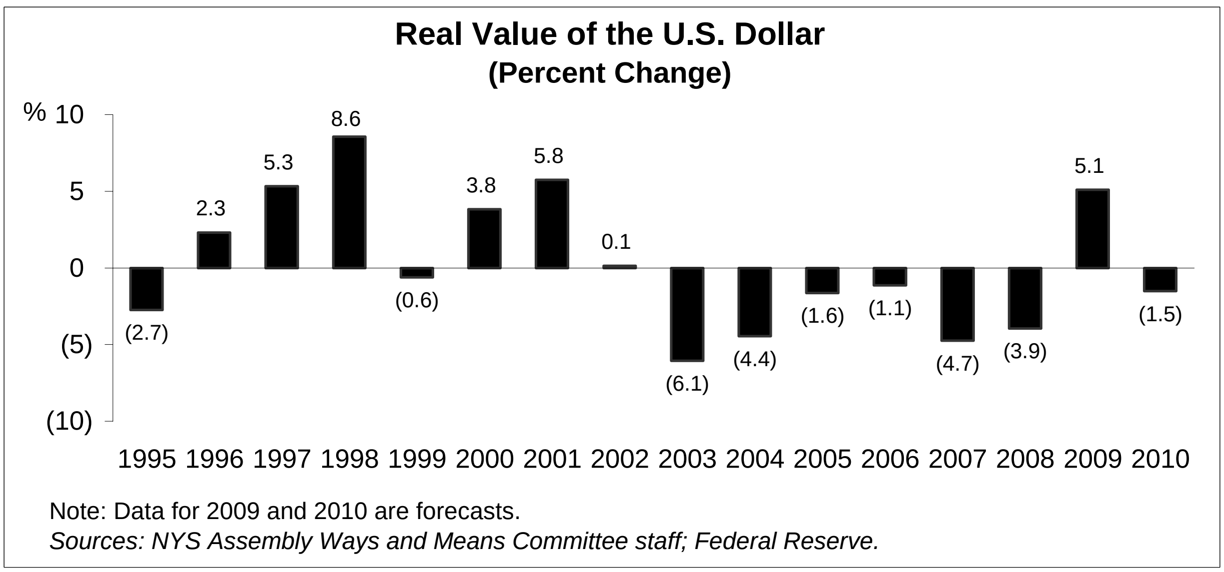

Figure 25

The declining dollar together with strong global demand for U.S. goods and services has helped boost exports and slow import growth in 2007 and 2008. As a result, net exports, defined as exports minus imports, have improved significantly in 2007 and 2008 after years of deterioration. The trade deficit is estimated to decrease from $547 billion in 2007 to less than $400 billion in 2008, and is forecast to fall further to $307 billion in 2009. The low value of the dollar has not been without consequences, however. A lower dollar could hurt the price of U.S. assets.

The decline of the dollar was driven mainly by the budget deficit and the current account deficit. Although the budget deficit improved significantly in FY 2007 to the lowest level since 2002, it is likely to worsen significantly in FY 2008 and FY 2009 due to slow revenue growth and the associated costs of all government programs related to the economic stimulus package. An improvement in net exports has helped to reduce the current account deficit from a record high of $843.6 billion in the third quarter of 2006 to below $700 billion in the third quarter of 2008 (see Figure 26). The current account deficit is expected to expand further due to worsening budget and trade deficits, which will put downward pressure on the dollar. Upward pressure from rising global risks, however, will likely outweigh the effect of the deficit on the dollar.

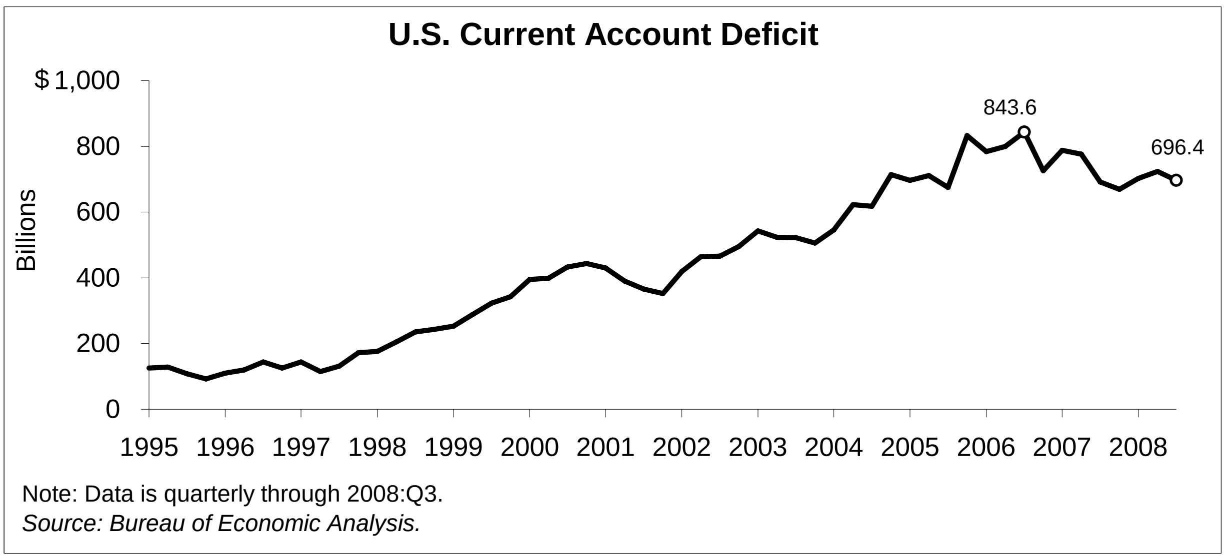

Figure 26

In November 2008, Japan's government announced that the second largest economy in the world had entered into recession; Japan's economic growth is expected to decline 1.4 percent in 2009. Canada, the largest trade partner for the United States, is forecast to also have negative economic growth in 2009.[32] In the euro area, both consumer and industrial confidence declined for the ninth consecutive month to record lows in January 2009.[33] As many of the countries in the euro area are forecast to have negative

[32] Economist Intelligence Unit, "Economic and Financial Indicators, Output, Prices and Jobs," *Economist.com*, February 5, 2009, http://www.economist.com/markets/indicators/displaystory.cfm?story_id=13061642.

[33] Economic and Financial Affairs, "Key Euro Area Indicators," European Commission, February 5, 2009, http: //ec.europa.eu/economy_finance/publications/publication12486_en.pdf.

GDP growth in 2009; economic growth in the euro area is forecast to decline by 1.9 percent in 2009, after growing an estimated 0.9 percent in 2008.[34]

With slow growth in demand for exports, much of the developing world is also expected to experience slower growth in 2008 and 2009. China, the largest U.S. trading partner in Asia, is expected to grow by 6.0 percent in 2009, after growing an estimated 9.6 percent in 2008.[35] With all the U.S. major trading partners' economic growth expected to slow down, and a stronger dollar, it is expected that U.S. exports will decline significantly in 2009 and will not be able to support growth as they have been during the past year.

Employment

The overall employment outlook for the nation is poor. National employment has declined on a monthly basis since January 2008, and the losses have accelerated. Since December 2007, the nation has lost 3.6 million jobs. Half of this decline was in the last three months alone. Initial and continuing unemployment claims data are at high levels and trending upward. The unemployment rate was 7.6 percent in January 2009. In addition, combined mass layoffs continue to rise each month and media reports of lay-offs of thousands of employees by large companies are becoming a daily occurrence.[36] On January 26, 2009, alone, five companies announced over 57,000 layoffs.

Monthly job declines during this recession are now well above monthly declines seen in previous economic downturns. More jobs have already been lost in this recession than in previous post-war recessions; and the job losses will continue through 2009, making this recession one of the worst in history in terms of employment.

National employment is estimated to have declined by 0.4 percent in 2008 and is forecast to fall 2.7 percent in 2009, the worst annual percentage decline since 1958. In comparison, employment declined 1.1 percent in 2002. Employment is expected to grow

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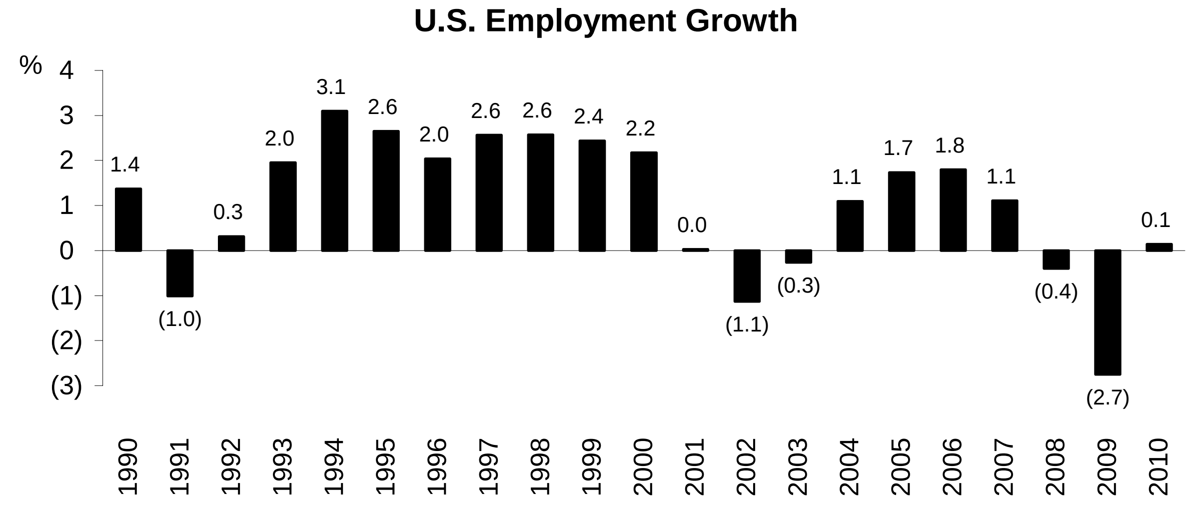
[34] European Commission, Directorate-General for Economic and Financial Affairs, "Interim Forecast," January 2009, (Press conference, January 19, 2009) http://ec.europa.eu/economy_finance/pdf/2009/interimforecast january/interim_forecast_jan_2009_en.pdf.

[35] Economist Intelligence Unit, "Economic and Financial Indicators, Output, Prices and Jobs," *Economist.com*, February 5, 2009, http://www.economist.com/markets/indicators/displaystory.cfm?story_id=13061642.

[36] The Bureau of Labor Statistics calculates monthly mass layoffs from establishments that have at least fifty initial claims for unemployment insurance filed against them during a five-week period.

only 0.1 percent in 2010 as firms in some sectors start to recover and stop cutting jobs (see Figure 27).



Note: Data for 2009 and 2010 are forecasts.
Sources: U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

Figure 27

Job losses are already widespread across sectors, as problems that started in the construction and finance industries ripple through the entire economy. Most sectors will continue to be affected adversely in 2009. Some sectors are expected to recover to near-flat or growing employment in 2010 (see Table 3).

Table 3

U.S. Employment by Sector (Percent Change)	Actual 2007	Estimate 2008	Forecast 2009	Forecast 2010
Total	**1.1**	**(0.4)**	**(2.7)**	**0.1**
Education and Health	2.8	2.9	2.6	2.9
Leisure & Hospitality	2.4	0.2	(2.5)	0.5
Government	1.1	1.2	0.1	(0.0)
Other Services[1]	0.5	(2.3)	(5.2)	0.3
Information	(0.2)	(1.2)	(4.1)	(0.3)
Retail Trade	1.1	(1.0)	(4.0)	(0.6)
Wholesale Trade	1.9	(0.9)	(3.4)	0.4
Professional Services	4.1	2.2	(1.3)	0.2
Mgmt. of Companies	3.0	1.5	(3.1)	(1.8)
Transp. & Utilities[2]	1.5	(0.6)	(4.3)	0.2
Financial Activities[3]	(0.3)	(1.9)	(3.4)	(1.2)
Manufacturing[4]	(1.6)	(2.8)	(7.1)	(2.6)
Construction	(0.8)	(5.5)	(9.0)	1.0

[1] Including Administrative, Support, and Waste Management Services.
[2] Transportation, Warehousing, and Utilities.
[3] Including Finance, Insurance, Real Estate, Rental, and Leasing.
[4] Including Mining and Logging.

Sources: U.S. Bureau of Labor Statistics, Current Employment Statistics (CES); NYS Assembly Ways and Means Committee staff.

As has been the case historically during recessions, the construction sector has been particularly hard hit. The sector is estimated to have lost 5.5 percent of employment in 2008, and is forecast to lose an additional 9.0 percent in 2009. The construction sector has been especially affected by declines in residential investment owing to the crisis in the housing market. Construction employment losses will continue until the housing market stabilizes and improves. Almost all subsectors of construction employment are experiencing job losses.

The financial activities sector is also expected to continue to lose jobs nationally, on a much worse scale than seen in previous recessions. Many investment and banking firms have laid off staff, or have announced thousands of layoffs of employees as a result of the credit crunch and the mortgage crisis. Companies associated with the mortgage business had to lay off staff as a result of high foreclosure rates for subprime mortgages. In addition, firms that held these mortgages as assets on their balance sheets have been forced to write-down their value leading to lower profits and the layoff of employees. As financial sector employment declines, this is causing a ripple effect through other sectors of the economy, notably services, which provides various support services for the financial industry.

Leisure and hospitality sector employment continued to grow on an annual basis through 2008. However, employment growth in this sector is likely to decline in 2009 as a result of a slowdown in spending by businesses and consumers. Weakened growth in disposable income will reduce spending on recreational activities such as dining out and taking vacations. Therefore, leisure and hospitality employment growth slowed to 0.2 percent in 2008 and is projected to be negative 2.5 percent in 2009, after growing more than two percent per year since 2004.

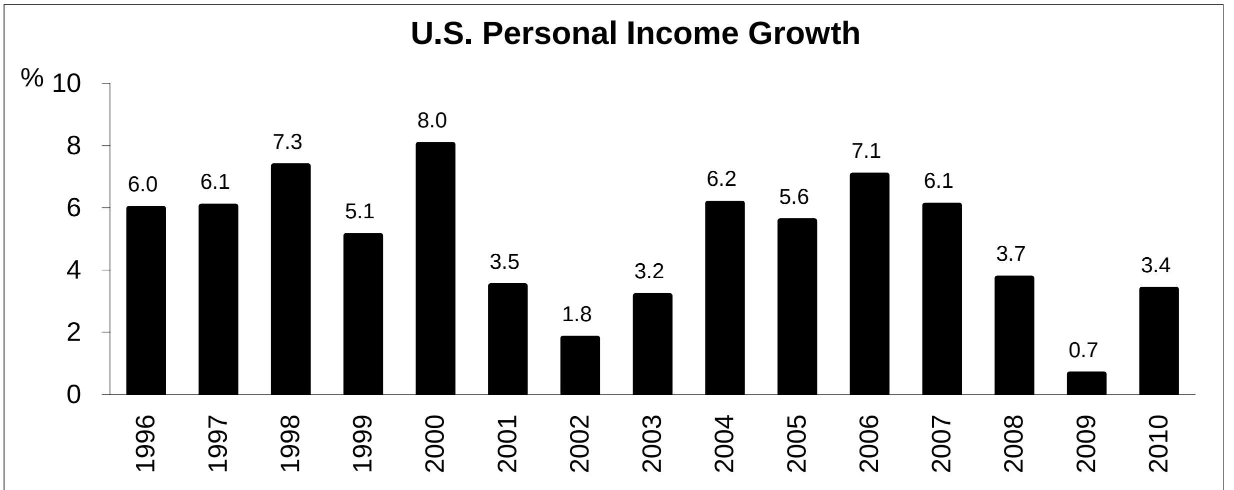
As economic growth continues to slow, most sectors will be affected and will need to make necessary adjustments to their workforce. Manufacturing will be hard hit not only by the effect of the housing market downturn on housing-related manufacturing, but also by the problems in the automobile industry. Industries that rely on the discretionary spending of households such as the retail trade sector have already been hard hit and will continue to be significantly negatively affected by the poor performance of consumer spending in 2009. As of January 2009, the retail trade sector had already lost 590,500 jobs compared to January 2008, about 17 percent of the total jobs lost over this period. As consumers remain tepid about spending, stores will be forced to cut costs and reduce their workforce further.

Personal Income

Personal income grew 3.7 percent in 2008, after growing 6.1 percent year-over-year in 2007. The tax rebates that were sent to households boosted personal income in the second quarter of 2008. These rebates slightly offset the slowdown in wage and salary growth and the falloff of interest income. As growth in wages and salaries, the main component of personal income, continues to soften due to lower hourly wages and less average hours worked, and as growth in other income components are expected to slow, the slowdown in personal income growth is anticipated to persist into 2009 even with a boost from a second round of fiscal stimulus. Personal income is forecast to grow only 0.7 percent in 2009, the lowest rate of growth since 1949.[37] With an improvement in the

[37] Without the impact of the fiscal stimulus, the growth rate of personal income would have been negative 0.8 percent, the first decline since 1949.

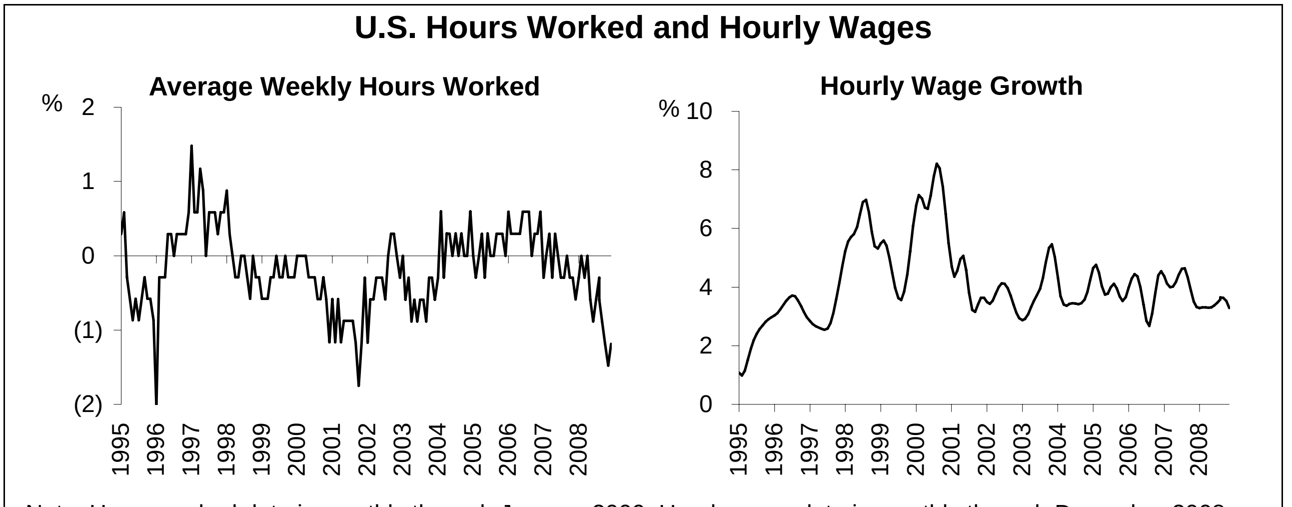
overall economic outlook, and higher wage and salary expectations, personal income growth is expected to rebound 3.4 percent in 2010 (see Figure 28).



Note: Data for 2008 is estimated; 2009 and 2010 are forecasts.
Sources: Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 28

Wages and salaries compensation grew 5.6 percent year-over-year in 2007, after growing 6.3 percent in 2006. In 2008, wage and salary growth slowed to 2.9 percent as hourly wages and average hours worked fell (see Figure 29). The falloff in hourly wages was due primarily to the considerable weakening of the variable component of wages and salaries. Difficult economic conditions have resulted in layoffs and a reduction in hours worked. The deteriorating labor market also has made employers more resistant to raising wages.



Note: Hours worked data is monthly through January 2009. Hourly wage data is monthly through December 2008.
Source: Bureau of Economic Analysis.

Figure 29

The growth in wages and salaries is expected to slow further in 2009 as employment continues to decline and falling prices put downward pressure on wage rates. Wage growth is forecast to fall 0.7 percent in 2009 (see Figure 30). This is the first decline for growth of wages and salaries since 1954. Wage and salary growth is forecast to rebound 2.5 percent in 2010, due largely to the gradual recovery in economic growth.

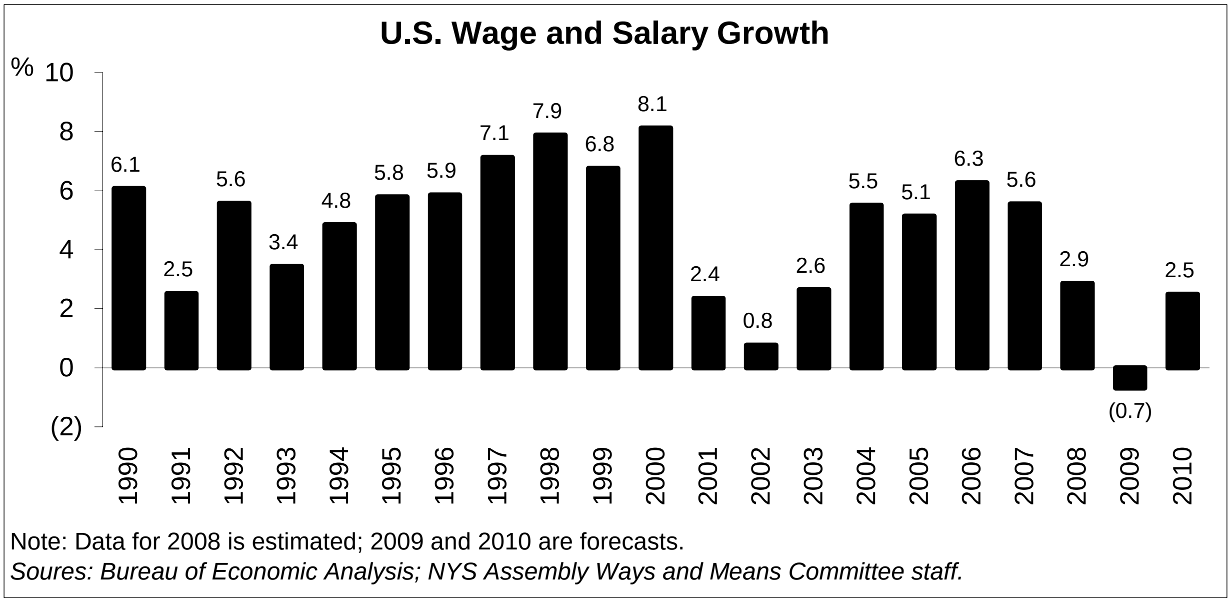


Figure 30

Personal transfer income grew 6.9 percent in 2007, due mainly to the higher cost of medical care related to the growing number of people who receive Medicare benefits, and growth in old age, survivors, and disability insurance (OASI) benefits. The impact of the prescription drug plan enacted in 2006 also contributed to growth in 2007. In 2008, transfer income growth was stimulated by the tax rebates that households received as a result of the enacted Economic Stimulus Act of 2008. Growth in transfer income also reflects the extension of unemployment benefit that is provided to individuals who have exhausted their regular benefits.[38] In 2009 and 2010, transfer income growth will be amplified by the effect of the ARRA that allocates billions of dollars in funds to households. Personal transfer income grew 9.1 percent in 2008, and is forecast to grow 7.3 percent in 2009 and 5.7 percent in 2010.

[38] The Supplemental Appropriations Act of 2008 has provisions that enact an additional thirteen weeks of unemployment compensation insurance benefits to individuals. See the Supplemental Appropriations Act of 2008, Public Law 110-252, 110th Congress, June 30, 2008.

Dividend income grew 12.4 percent in 2007 fueled by strong growth in corporate profits. However, a slowing economy and deepening problems in the financial markets have led to falling revenues and profits for many corporations. Falling profits have resulted in a decline in investors' confidence, leading to a significant fall in the value of companies. Dividend income is estimated to have diminished in 2008 to 6.1 percent, and is forecast to decline 3.9 percent in 2009 as companies try to salvage losses. Dividend income is anticipated to grow 1.0 percent in 2010 due to an improvement in the business environment.

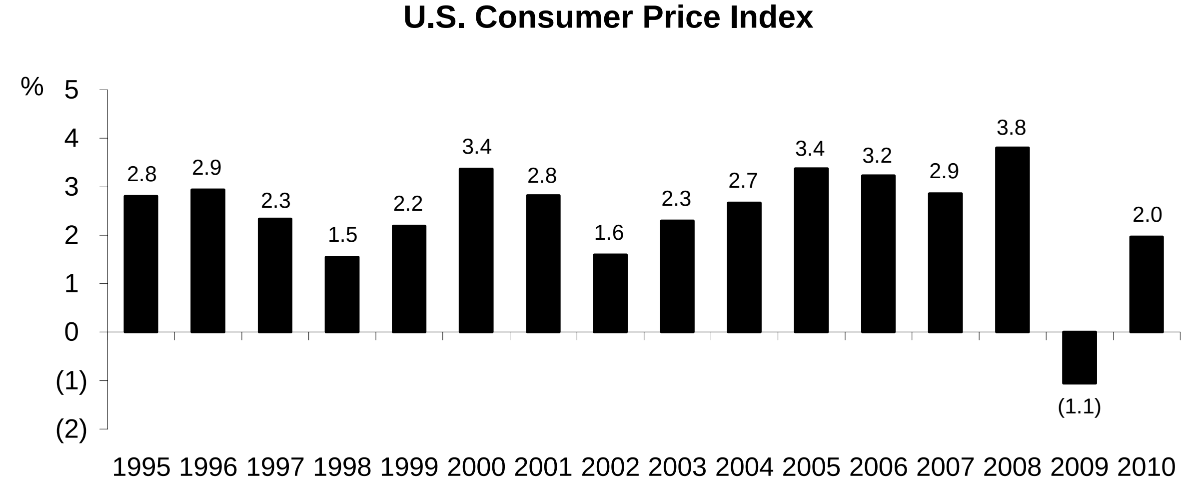
Personal interest income grew 7.9 percent in 2007, attributed to a steady rise in interest rates from the prior year. With falling interest rates, interest income declined 0.7 percent year-over-year in 2008 and is expected to fall an additional 4.9 percent 2009. In 2010, interest income is expected to grow 0.8 percent as interest rates tick upward.

Prices

Consumer prices grew an estimated 3.8 percent in 2008 as a direct result of pricing pressures—namely from record high energy prices, which were eventually passed through to consumers when producers could no longer afford to absorb them (see Figure 31). As energy prices in early 2009 are considerably lower than in the first half of 2008 and overall economic growth continues to slow significantly, prices are expected to decline 1.1 percent in 2009, the first decline in prices since 1955. Prices are expected to grow 2.0 percent in 2010.

Falling oil prices play a large part in the outlook for 2009 inflation, but oil prices continue to represent considerable risk to the price forecast. The long-term outlook for oil prices is unclear and daily movements in prices may not reflect the true balance of supply and demand fundamentals in the long run; therefore, assumptions for crude oil prices are difficult to make. Given the recent large drop in oil prices and the weakening economy, which the forecast discussed in this document assumes will keep oil demand lower, crude oil is projected to cost $47 per barrel on average in 2009. This will be the lowest annual average since 2004 (see the Energy Prices section on page 38).

In addition to oil and energy prices, there are other factors contributing to the lower inflation outlook in 2009 and 2010 compared to 2008. As employment growth slows, there may be less pressure on producers to raise wages to attract good labor. Therefore, the weakening employment situation will ease pressures on prices.



Note: Data for 2008 is estimated; 2009 and 2010 are forecasts.
Sources: U.S. Bureau of Labor Statistics, NYS Assembly Ways and Means Committee staff.

Figure 31

Most major categories of prices have shown increases in recent years, although core inflation has remained relatively low (see Table 4). The one exception is the apparel category, where prices have decreased on an annual basis for several years. However, starting in July 2008, apparel prices experienced an increase from the previous year, indicating that apparel prices are no longer adding downward pressure to overall prices.

Table 4

U.S. Consumer Price Index (CPI) by Category
(Percent Change)

	2003	2004	2005	2006	2007	2008
All Items	2.3	2.7	3.4	3.2	2.9	3.8
Services	3.2	2.9	3.3	3.8	3.3	3.5
Food & Beverages	2.1	3.4	2.4	2.3	3.9	5.4
Energy	12.2	10.9	16.9	11.2	5.5	13.9
All Items Less Food & Energy (Core)	1.5	1.8	2.2	2.5	2.3	2.3
Housing	2.5	2.6	3.3	3.8	3.2	3.2
Apparel	(2.5)	(0.4)	(0.7)	(0.1)	(0.4)	(0.1)
Transportation	3.1	3.5	6.6	4.0	2.1	5.9
Medical Care	4.0	4.4	4.2	4.0	4.4	3.7
Recreation	1.2	1.0	0.7	1.4	0.5	1.6
Education and Communication	1.8	1.6	1.9	2.7	2.4	3.4
Other Goods and Services	1.9	2.0	2.8	2.7	3.6	3.6

Source: U.S. Bureau of Labor Statistics.

Energy Prices

Energy prices, in particular the price of oil, continue to represent a critical risk to the overall health of the economy. Although prices are volatile on a short-term basis, overall increases in energy prices present a direct hazard to both consumers and producers (see Table 5). Prices have been affected recently by supply and demand fundamentals, and by other factors such as the decline of the dollar and commodities speculation. The volatility in energy prices is aided by the uncertainty of the future conditions in energy markets. Some of the factors that continue to contribute to this uncertainty are weather-related phenomena such as hurricanes, geopolitical instability, and speculation.

Table 5

U.S. Energy Prices
Annual Average

		2004	2005	2006	2007	2008
Crude Oil - RAC	***Percent Change***	**29.6**	**36.1**	**20.8**	**13.7**	**38.3**
	Level	35.91	48.86	59.02	67.13	92.87
Crude Oil - WTI	***Percent Change***	**33.6**	**36.4**	**16.6**	**9.5**	**37.7**
	Level	41.51	56.64	66.05	72.32	99.55
Crude Oil - Brent	***Percent Change***	**32.6**	**42.6**	**19.4**	**11.2**	**33.8**
	Level	38.26	54.57	65.16	72.44	96.94
Natural Gas	***Percent Change***	**7.3**	**49.3**	**(23.4)**	**3.4**	**26.8**
	Level	5.90	8.81	6.75	6.98	8.85
Heating Oil	***Percent Change***	**31.8**	**45.5**	**11.1**	**12.4**	**40.4**
	Level	1.12	1.63	1.81	2.03	2.85
Gasoline	***Percent Change***	**18.6**	**22.7**	**13.2**	**9.3**	**15.7**
	Level	1.85	2.27	2.57	2.81	3.25
NYS Gasoline	***Percent Change***		**22.1**	**14.3**	**7.4**	**22.6**
	Level	1.95	2.38	2.72	2.92	3.58
Diesel	***Percent Change***		**45.2**	**16.2**	**9.3**	**37.7**
	Level	1.15	1.67	1.94	2.12	2.92

Note: All levels are nominal. Oil prices are dollars per barrel. The refiner acquisition cost (RAC) of oil is a volume weighted average price of imported oils. The RAC daily spot price is generally less than the West Texas Intermediate (WTI) spot price, which is commonly reported in the media. Natural gas figures are average of monthly Henry Hub Spot Price, dollars per thousand cubic feet; heating oil figures are for No. 2 heating oil, NY Harbor Spot Price, dollars per gallon; gasoline prices are for retail, regular grade, dollars per gallon; Diesel prices are for New York Harbor No 2 Diesel Low Sulfur Spot Price FOB, dollars per gallon.

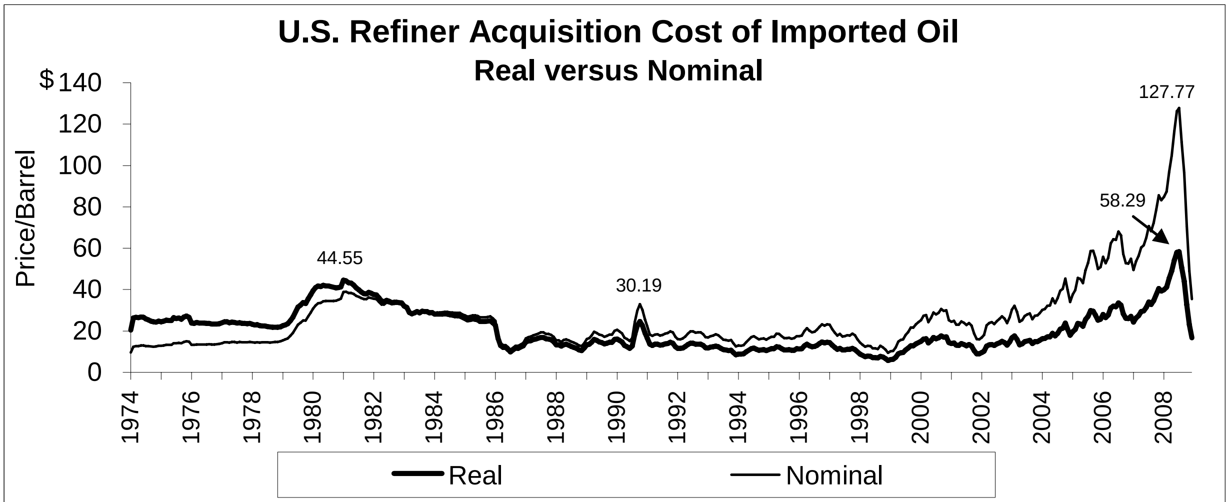
Source: Energy Information Administration.

Oil prices, as measured by the refiner acquisition cost of imported oil (RAC), averaged $92.87 in 2008, an increase of 38.3 percent from the 2007 average of $67.13.[39]

[39] This refers to monthly data on the U.S. Refiner Acquisition Cost of Oil (RAC), a volume weighted average

As demand weakens in 2009 in response to slower economic growth, the RAC of oil is expected to stabilize at $46.80, a level less than in 2008 and the lowest annual average since 2004.

In 2008, the price of crude oil surpassed the inflation-adjusted record set during 1980. The price of crude oil remained substantially above 2007 levels until November 2008. The future price of crude oil remains uncertain as it may be highly susceptible to changes in world economic conditions. The nominal RAC price in July 2008 was $127.77, more than an 80 percent appreciation from the July 2006 and 2007 price of crude oil. The inflation-adjusted price increased 29.4 percent between September 2007 and September 2008 (see Figure 32). By December 2008, the RAC price had dropped to $37.00, 55.5 percent depreciation from the December 2007 price as a result of a pullback in demand.



Note: Real values are inflation-adjusted using CPI (All Urban Consumers 1982-84 = 100). Data is monthly through December 2008. The refiner acquisition cost of oil is a volume weighted average price of imported oils. It is generally several dollars less than the West Texas Intermediate price, which is commonly reported in the media.
Sources: U.S. Bureau of Labor Statistics; Energy Information Administration.

Figure 32

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price of imported oils. The RAC is generally less than the West Texas Intermediate (WTI) price commonly reported in the media. West Texas Intermediate prices have also been at record levels. For the purposes of this report and the forecast contained within, the RAC is utilized due to the fact that it is generally thought to be less volatile than the WTI spot price. Up until 2003, the WTI price averaged about $2 more than the RAC on a monthly basis. After 2003, however, the difference between the two prices widened significantly and became more unpredictable, reaching almost $10 in some months. For 2008, the average difference between the monthly average of the two prices was over $7. News stories referring to crude oil prices reaching $147 per barrel, or dropping in intra-day trading by several dollars are referring to WTI daily spot prices or futures prices of other various oil price measures.

While demand for oil has softened in response to high prices, the supply of oil has historically been unreliable and supply problems persist. Non-OPEC supplies continue to be volatile.

There has been much debate over whether or not speculation plays a role in oil price changes, and if so, how much. There have been several studies published within the last year, each drawing different conclusions on the role of speculation in the price of oil. The true magnitude of how speculation affects oil prices is unknown; however, it is likely that speculation plays some role in the short-term, exacerbating changes triggered by variances in supply and demand. Adding to evidence of speculation are reports in early 2009 of firms buying and storing oil at current low prices hoping to resell the oil in the future when prices rebound.[40]

Gasoline prices also have been a source of pressure on consumers. In the summer of 2008, the U.S. average price for a gallon of gasoline was over $4.00. However, most recently year-over-year demand for gasoline has fallen, causing declines in the price at the pump. On January 26, 2009, the national average price for a gallon of regular gas was $1.84, a decline of $1.14 since January 2008.

Corporate Profits

As output growth slowed and production costs rose sharply, corporate profits declined 1.6 percent during 2007, ending the five consecutive years of double-digit growth. With the further slowing of the economy, corporate profits are estimated to have declined another 8.2 percent in 2008. In the past six years, nonfinancial corporations performed better in profits than financial corporations (see Figure 33). With the financial turmoil weighing more on financial corporations, this trend will continue during the forecast period. As economic growth and pricing power are expected to weaken during 2009, corporate profits are forecast to decline another 7.0 percent in 2009 (see Figure 34). As economic growth is expected to rebound in 2010, corporate profits will gain 5.6 percent.

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[40] Alaric Nightingale and Todd Zeranski, "Morgan Stanley Said to Seek Supertanker to Store Oil" (Update2), *Bloomberg.com*, January 15, 2009, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aZ8zTUi12IkY.

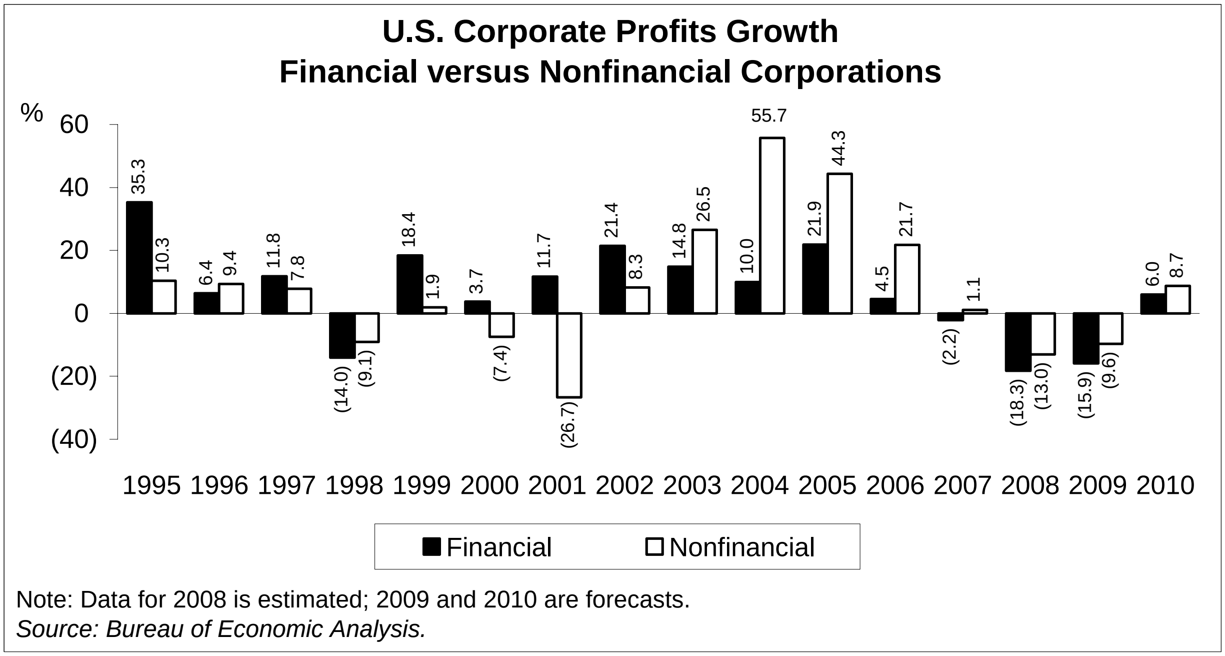


Figure 33

Figure 34

The share of corporate profits in national income rose to 14.5 percent in the third quarter of 2006 from the nine-year low of 8.0 percent in the third quarter of 2001, as corporations economized on workforce-improving productivity (see Figure 35). The corporate profits share will likely gain somewhat during 2009 as cost-cutting efforts will intensify while output growth and productivity gain are expected to slow.

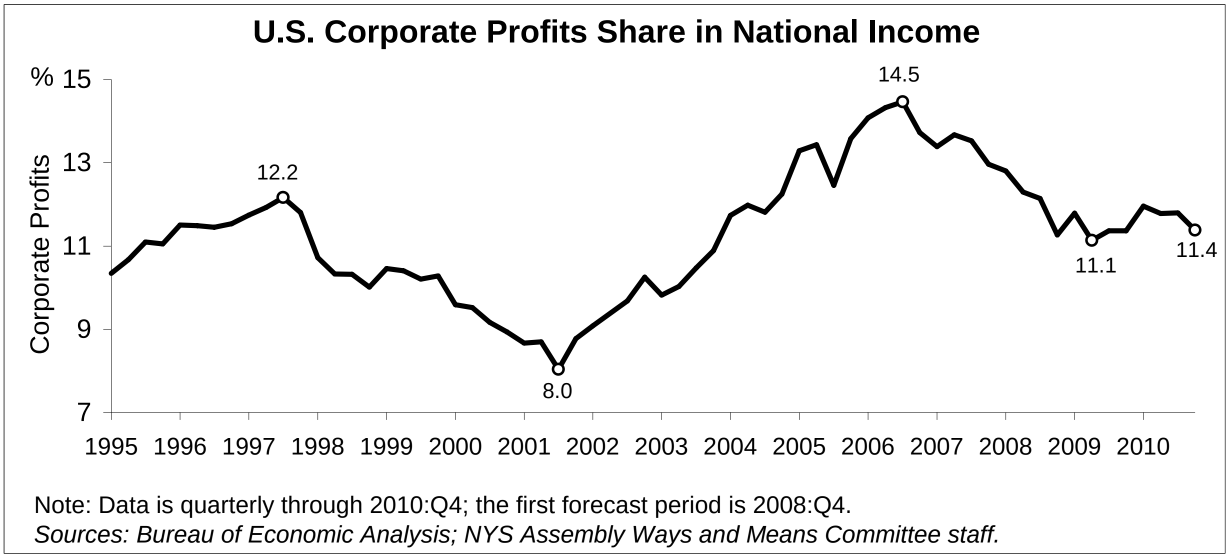
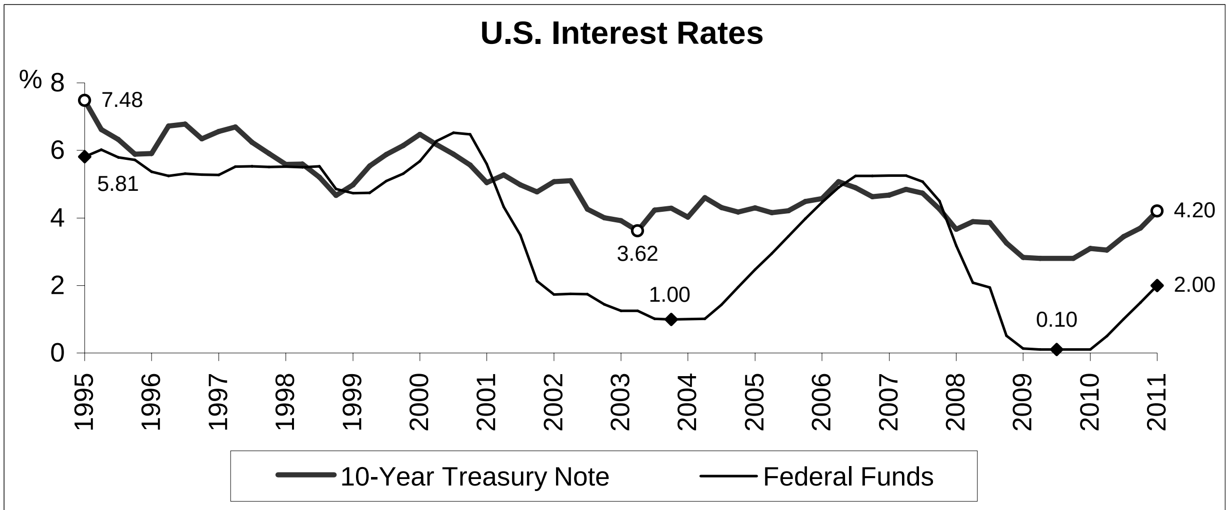


Figure 35

Interest Rates

With economic growth slowing and the turmoil in housing and credit markets spreading to the broader economy, the Federal Reserve has cut the federal fund rate target to a 0 to 0.25 percent range on December 16, 2008, the lowest level on record. The current forecast assumes that the Fed will maintain the rate within the current target range until early 2010 before raising the rate gradually throughout the forecast period (see Figure 36). The federal funds rate, which averaged 1.9 percent in 2008, is forecast to average 0.1 percent in 2009 and 0.8 percent in 2010. Similarly, the three-month Treasury bill rate averaged 1.4 percent in 2008, and is forecast to average 0.4 percent in 2009 and 1.1 percent in 2010.

The U.S. and world economies are expected to continue to weaken throughout 2009 before recovering in 2010. As a result, the bond market will become more attractive for investors who seek safer investments. Foreign investors have also become large holders of U.S. Treasury securities, looking for the safety and liquidity provided by those bonds. Net purchase of U.S. Treasury securities by foreigners rose from an average of $18.0 billion per month for the first eleven months of 2007 to almost $30 billion per month for the first eleven months of 2008. The 10-year Treasury note yield averaged 3.7 percent in 2008, and is forecast to average 2.8 percent in 2009. As the economy is expected to rebound in 2010, investors will likely shift their investment to stocks and corporate bonds. The 10-year Treasury rate is forecast to average 3.3 percent in 2010.



Note: Data is quarterly through 2011:Q1; the first forecast period is 2009:Q1.
Sources: Federal Reserve; NYS Assembly Ways and Means Committee staff.

Figure 36

The Federal Reserve has been acting aggressively in response to the current economic slowdown as the problem in the housing market has spread into the credit and financial markets and to the rest of the economy. Other than cutting interest rates, the Fed also has been using other monetary policy tools such as Term Auction Facility (TAF) to provide liquidity into the economy.[41] Since early 2008, the Fed has increased TAF and expanded its securities lending program. It has started lending directly to companies outside the financial sector through the Commercial Paper Funding Facility (CPFF), which was created in October 2008.[42] The Fed also has been collaborating with other governments and central banks in other countries.

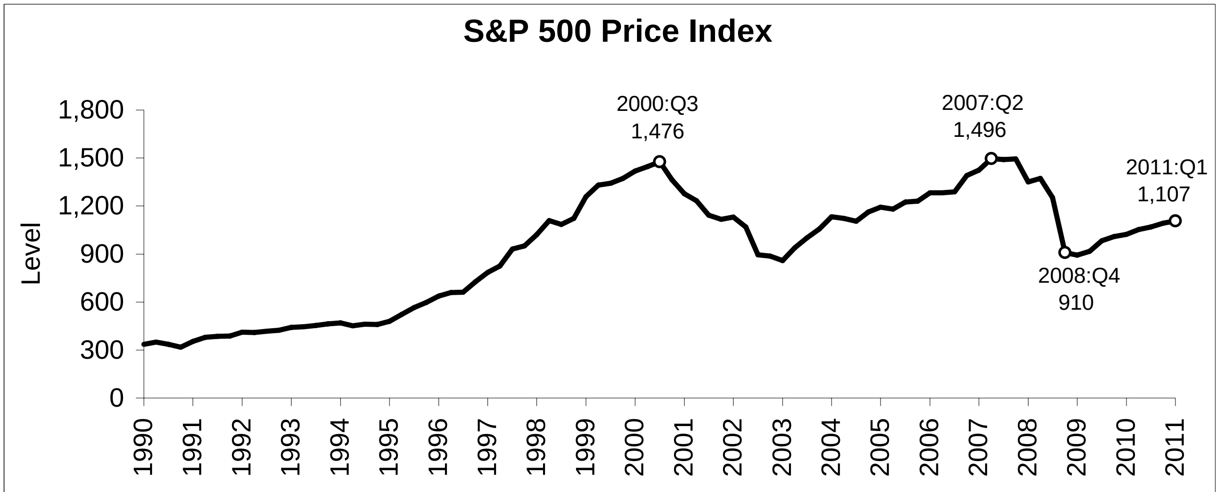
Lower interest rates may erode the value of dollar assets, thus discouraging investors from investing in U.S. assets. Net purchase of U.S. corporate stock by foreigners declined from an average of $15 billion per month in the first eleven months of 2007 to less than $4 billion per month in the first eleven months of 2008. Net purchase of U.S. corporate and other bonds by foreigners dropped from an average of over $30 billion per month in the first eleven months of 2007 to less than $5 billion per month in the first eight months of 2008.

[41] The Term Auction Facility is used to improve liquidity in the market by auctioning a set amount of funds to depository institutions.

[42] The Commercial Paper Funding Facility is used to provide liquidity for U.S. issuers of commercial paper by purchasing highly-rated unsecured and asset-backed commercial paper from eligible issuers.

Stock Market

In the second quarter of 2007, the S&P 500 surpassed its former quarterly average peak of 1,475.5 reached in the third quarter of 2000 (see Figure 37). Using annual average values, the S&P 500 increased 12.7 percent to a record high of 1,476.7 in 2007. After the U.S. entered recession in December 2007, S&P 500 declined 17.3 percent in 2008.



Note: Data is quarterly through 2011:Q1; the first forecast period is 2009:Q1.
Sources: Standard & Poor's; NYS Assembly Ways and Means Committee staff.

Figure 37

On October 9, 2007, the S&P 500 closed at a record high of 1,565.15. Similarly, the Dow Jones Industrial Average (DJIA) closed at a record high of 14,164.53. Since then, both indices have dropped by more than 40 percent due largely to the turmoil in the housing and credit markets, as well as the much lower than expected earnings reported by large firms. In addition to mortgage-backed securities and mortgage-related derivatives, investors and investment firms have also been heavily exposed to credit derivatives such as credit default swaps (CDS). In less than four years, total outstanding CDS have grown almost ten fold from $6.4 trillion in December 2004 to $57.3 trillion in June 2008.[43] These highly speculative derivatives are lightly regulated; as a result, great uncertainty remains in the market.

[43] Bank for International Settlement, "Semiannual OTC Derivatives Statistics at End: June 2008," Table 19: Amounts Outstanding of Over-The-Counter (OTC) Derivatives; http://www.bis.org/statistics/otcder/dt1920a.csv.

A gradual lifting of market uncertainty is expected to help improve the stock market performance throughout the forecast period. However, with overall economic activity and corporate profitability expected to remain weak during most of 2009, the annual average level of the S&P 500 will likely be lower than the 2008 level. On an annual basis, the S&P 500 is forecast to decline 22.2 percent in 2009 before rebounding 11.5 percent in 2010.

As of February 6, 2009, the S&P 500 was down 44.5 percent from its previous peak in October 2007, compared to a drop of 31.4 percent from its peak to trough during the early 2000s downturn. Similarly, the DJIA dropped 41.5 percent from its previous peak in October 2007 compared to the 21.9 percent decline from its peak to trough during the 2000 downturn. During the 1929 stock market crash, the DJIA dropped by more than 80 percent from its peak in September 1929 to its trough in July 1932. The DJIA did not return to pre-1929 levels until the mid-1950s.

The National Association of Securities Dealers Automated Quotations (NASDAQ) and DJIA have shown trends similar to the S&P 500. Based on year-end prices, all three markets peaked in 1999 and bottomed out in 2002 (see Figure 38).[44] Though the pattern

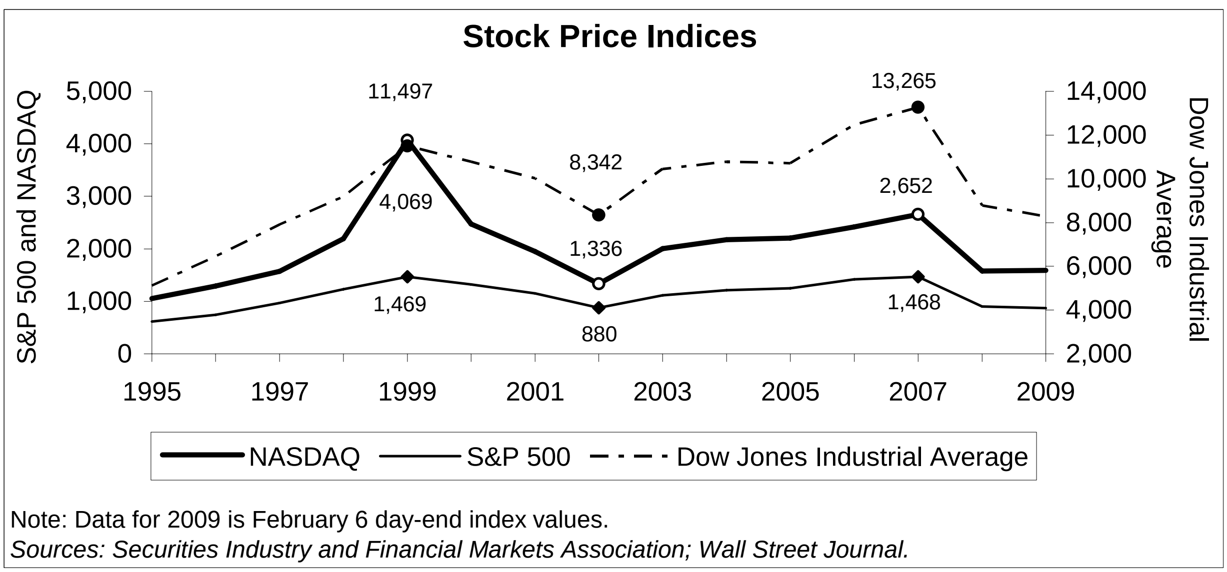


Figure 38

was similar, the NASDAQ had a much more pronounced peak and trough, consistent with the higher volatility of this market, which is heavily weighted towards growth and

[44] The 2000 peak in the S&P 500 discussed previously was based on quarterly data. However, since stock prices started declining in the first half of 2000, the annual average price was higher in 1999 than in 2000.

technology stocks. Despite various efforts by the federal government to stabilize the financial markets, all indices have declined by more than 30 percent from their close at the end of 2007 and are at the level close to where they were during the last recession in 2002.

United States Forecast Comparison

The NYS Assembly Ways and Means Committee staff forecast for overall national economic growth in 2009 is negative 1.9 percent (see Table 6). The staff forecast is higher than IHS Global Insight by 0.6 percentage point and is the same as the Blue Chip Consensus. The staff forecast is lower than Macroeconomic Advisers by 0.6 percentage point, Moody's Economy.com by 0.2 percentage point, and the Division of the Budget by 0.5 percentage point. However, it should be noted that the forecasts have included stimulus packages of varying sizes and allocation; therefore, numbers may not be directly comparable.

Table 6

U.S. Real GDP Forecast Comparison
(Percent Change)

	Actual 2007	Estimate 2008	Forecast 2009	Forecast 2010
Ways and Means	2.0	1.2	(1.9)	2.1
Division of the Budget	2.0	1.2	(1.4)	2.2
Blue Chip Consensus	2.0	1.3	(1.9)	2.1
Moody's Economy.com	2.0	1.2	(1.7)	2.0
Macroeconomic Advisers	2.0	1.1	(1.3)	3.7
IHS Global Insight	2.0	1.2	(2.5)	2.2

Sources: NYS Assembly Ways and Means Committee staff; Blue Chip, February 2009; New York State Division of the Budget, 2009-10 Executive Budget, 30 Day Amendments, January 15, 2009; Moody's Economy.com, January 2009; IHS Global Insight, January 2009; Macroeconomic Advisers, January 2009.

The Assembly Ways and Means Committee staff forecast for overall national economic growth in 2010 is 2.1 percent. The staff forecast is lower than Macroeconomic Advisers by 1.6 percentage points, the Division of the Budget and IHS Global Insight by 0.1 percentage point, and is the same as the Blue Chip Consensus. It is higher than Moody's Economy.com by 0.1 percentage point.

NEW YORK STATE FORECAST

The New York State economic outlook is bleak. Both employment and wages are expected to fall in 2009, and the outlook for variable compensation is particularly dire due to the current financial situation on Wall Street. Problems in the financial markets are especially detrimental to the economic well-being of New York State.

The New York State Assembly Ways and Means Committee staff estimates that without any additional stimulus from the federal government, New York State employment would decline 2.5 percent and personal income would decline 2.8 percent in 2009. In 2010, job loss would continue at an annual average rate of 1.5 percent and personal income would gain a mere 0.1 percent. The enactment of the proposed federal stimulus plan is forecast to have a significant impact on the New York State economy, adding 0.5 percentage point to employment growth in 2009, making the total loss 2.0 percent (see Table 7). Personal income is forecast to fall 1.3 percent with the stimulus package. The effects on employment and personal income are expected to be larger in 2010 as additional stimulus money will be distributed and some of the effects from 2009 stimulus programs will show up. State employment is forecast to decline 0.1 percent in 2010, a 1.4 percentage point gain relative to the forecast without the stimulus package. State personal income is forecast to grow 3.3 percent in 2010.

Table 7

New York State Economic Outlook
(Percent Change)

	Actual 2007	Estimate 2008	Forecast 2009	Forecast 2010
Employment	1.4	0.3	(2.0)	(0.1)
Personal Income	6.5	3.2	(1.3)	3.3
Total Wages	8.8	1.9	(4.1)	2.6
Base Wages	6.6	2.4	0.1	3.0
Variable Compensation	23.5	(1.3)	(30.4)	(1.0)
New York Area CPI	2.8	3.9	(0.9)	2.0

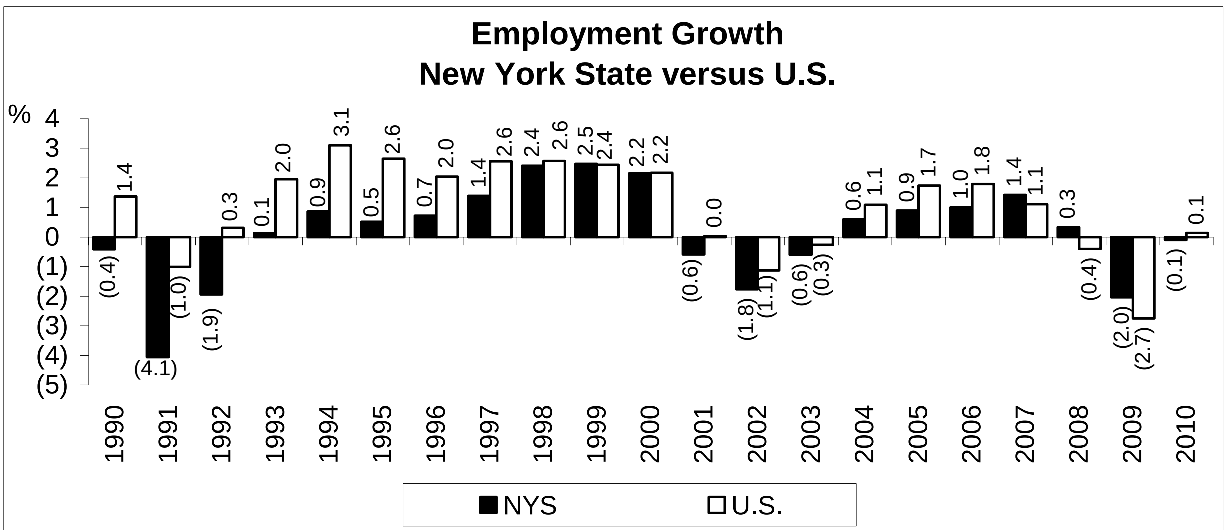
Note: Base wages and variable compensation are estimated by the NYS Assembly Ways and Means Committee staff and sum to total wages. New York area CPI is based on the New York-Northern NJ-Long Island, NY-NJ-CT-PA CPI-U series from the U.S. Bureau of Labor Statistics.

Sources: Bureau of Economic Analysis; NYS Department of Labor, QCEW; U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

Financial markets play a central role in the economy of New York State. The financial activities industry is a major source of State revenue, generated from corporate and personal income taxes. This industry accounted for 24.4 percent of total New York State wages for 2007, even though employment in the industry was only 8.5 percent of total State employment. The average wage in this industry was three times that of the overall State average wage. This suggests that employees in the financial activities industry contribute disproportionately more in taxes than those working in other industries. As a result, the performance of this industry is a key component to the overall economic well-being of New York State. However, due to current problems in the financial and credit markets, the financial activities industry is not expected to comprise the same share of the State economy going forward.

The mounting problems related to mortgage-backed securities have resulted in seriously distressed financial markets. Many firms in this industry have sustained record losses. As the losses have escalated, many of these firms have set aside less for compensation and benefits, while simultaneously reducing their workforce. This does not bode well for New York State.

New York State employment grew 1.4 percent in 2007 and is estimated to have grown 0.3 percent in 2008, compared to a loss of 0.4 percent in the nation (see Figure 39). Employment in the State has held up relatively well in 2008 compared to some other



Note: Data for 2008 is estimated; 2009 and 2010 are forecasts.
Sources: NYS Department of Labor, QCEW; Bureau of Labor Statistics, CES; NYS Assembly Ways and Means Committee staff.

Figure 39

states. This is explained by the activity in two sectors. State construction employment performed well in 2008 due to ongoing capital project activities and the State's housing market faring better than the national housing market. In addition, the manufacturing sector represents a lower share of the State economy than in past recessions. In 2009, the rate of total job loss in the State is forecast to be 2.0 percent.

Historically, a one-year employment decline of 2.0 percent in New York State is close to levels seen in previous recessions. During and after the 2001 recession, employment declined by 0.6 percent in 2001, 1.8 percent in 2002, and 0.6 percent in 2003. In 2002, wages fell by 2.6 percent, indicating the significant effect the 2001 terrorist attacks had on Wall Street. In the early 1990s, employment also declined three consecutive years by 0.4 percent in 1990, 4.1 percent in 1991, and 1.9 percent in 1992. However, wage growth was strong in 1990 and 1992, and fell by only 0.2 percent in 1991, reflecting the different nature of the downturn.

The difference between the current and past recessions in New York State can be partially explained by structural changes to the economy, which have happened over time. In the past, manufacturing employment made up a much larger share of the State economy and was especially hard hit in the 1990-91 recession. In 2001, the terrorist attacks forced an immediate loss of jobs, and also required some relocation of jobs from New York to other surrounding states. Some of this job loss likely remained permanent as firms settled elsewhere. In addition, the employment recovery from the 2001 recession was particularly slow, indicating firms may have been cautious about re-hiring after the 2001 recession, due in large part to productivity gains and outsourcing of U.S. jobs overseas.

Many risks to the New York State economic outlook exist. Central among these risks is the performance of Wall Street in the coming year pertaining to bonus payments and layoffs of financial activities sector employees. The uncertainty associated with the credit crisis and the full extent of the related problems on the rest of the economy is a risk to the forecast. Also, the magnitude of government response represents a major risk to our forecast.

Employment

In 2007, New York State employment grew 1.4 percent, slightly higher than 2006. As problems in housing and the financial markets spread to the rest of the economy, employment in both the State and the nation slowed sharply in 2008. With the overall economy weakening further in 2009, employment in New York State is forecast to decline by 2.0 percent. State employment is forecast to remain almost flat in 2010. During the current downturn, New York State is forecast to lose 267,760 jobs. This accounts for 5.1 percent of U.S. total employment loss.

From 2008 to 2009, the State is expected to lose approximately 2.0 percent of total jobs or about 174,600 jobs. The largest number of jobs lost will be in the financial activities sector, which will account for almost 25 percent of total State jobs lost.

Employment is expected to decline in all sectors in 2009, with the exception of the education and health sector. The turmoil in the financial market will have a significant negative impact on employment and the performance of the securities industry. More than 200,000 job cuts in the financial industry have been announced by U.S. firms in 2008; many of these jobs are located in downstate New York.[45] As a result, employment in the financial activities sector is expected to have declined in 2008 and to continue to fall throughout the forecast period (see Table 8). The only employment gain in 2009 is expected to be in the education and health sector, which accounts for the largest share of total State employment at 17.8 percent in 2008. From 2008 to 2010, the education and health sector is expected to generate more than 25,000 new jobs each year.

Manufacturing employment in the State declined by almost 50 percent between 1990 and 2007. However, all of the employment losses from the manufacturing sector in the last decade have been offset by employment gains in the education and health sector. Historically, manufacturing employment in the State has declined much faster than that of the nation. The manufacturing losses experienced by both the State and the nation over the past few decades were due to structural shifts in the economy and other economic factors such as automation, mergers, and outsourcing. Going forward, the decline of the U.S. automobile industry will also have a negative effect on national and State manufacturing employment, and is of particular concern to upstate New York. Manufacturing employment is forecast to continue to decline for both the State and the nation throughout the forecast period.

[45] Jessica Dickler, "Job Cuts at Highest Level Since '02," *CNNMoney.com*, December 3, 2008, http://money.cnn.com/2008/12/03/news/economy/job_cuts/index.htm?postversion=2008120309.

Table 8

New York State Employment by Sector (Percent Change)				
	Actual 2007	Estimate 2008	Forecast 2009	Forecast 2010
Total Employment	**1.4**	**0.3**	**(2.0)**	**(0.1)**
Professional Services	4.1	2.6	(2.3)	0.6
Education & Health	2.0	2.0	2.0	2.1
Construction	4.8	1.8	(1.9)	1.7
Leisure & Hospitality	3.6	1.2	(3.1)	(0.2)
Mgmt. of Companies	1.2	1.2	(3.3)	(0.2)
Transp. & Utilities[1]	1.3	0.5	(3.9)	(2.2)
Government	0.9	0.5	(0.3)	(0.3)
Other Services[2]	2.2	0.1	(4.4)	(0.6)
Retail Trade	1.7	(0.3)	(3.2)	(0.3)
Information	(1.3)	(0.8)	(2.8)	(0.0)
Wholesale Trade	1.0	(1.0)	(3.4)	(1.0)
Financial Activities[3]	1.0	(1.7)	(5.6)	(1.7)
Manufacturing[4]	(2.3)	(3.5)	(5.2)	(3.5)

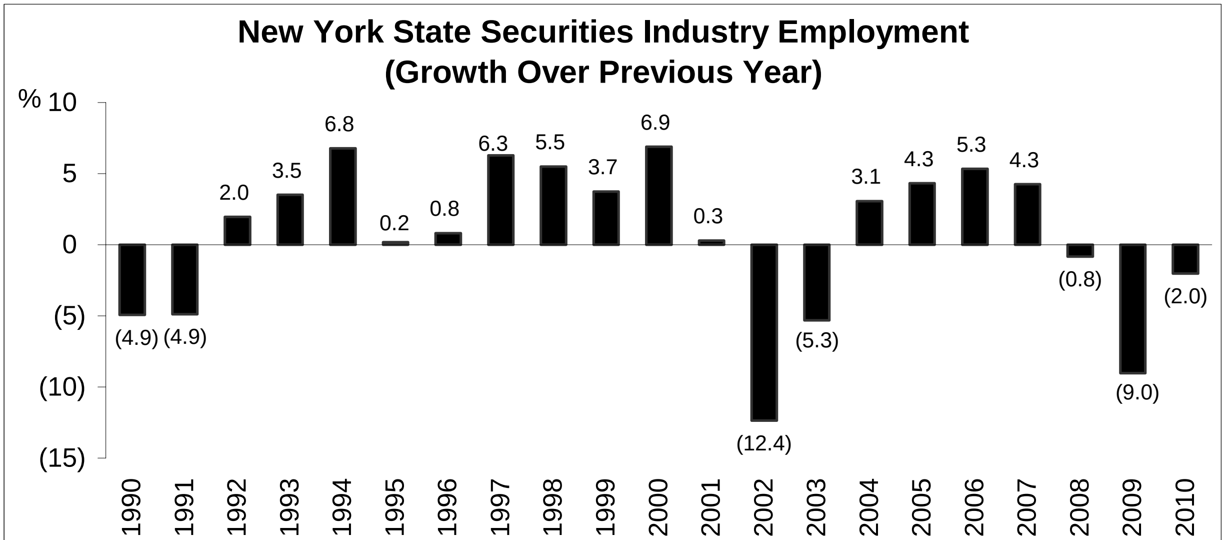
[1] Transportation, Warehousing, and Utilities.
[2] Including Administrative, Support, and Waste Management Services.
[3] Financial Activities including Finance, Insurance, Real Estate, Rental, and Leasing.
[4] Including Mining.
Sources: NYS Department of Labor, QCEW; NYS Assembly Ways and Means Committee staff.

Though some of the structural and cyclical job losses were similar for both the State and the nation, the structural job losses will be much larger than the cyclical gains over the next few years due to a continuing decline in the manufacturing industries prevalent in New York State relative to those in the nation.

As problems in the housing and credit markets intensify, the financial activities sector, especially the securities industry, will continue to be adversely impacted. The industry currently employs more than 200,000 workers in the State and it accounted for 2.4 percent of total State employment in 2008. Since 2007, many nationwide job cuts have been announced. As New York State securities employment accounted for more than 20 percent of the nation's securities employment, it is likely that a significant number of the jobs being cut are located in the State.[46]

[46] According to the Securities Industry and Financial Markets Association, as of November 2008, New York State securities industry employment accounted for 23.1 percent of U.S. securities industry employment.

These cuts will not likely be mitigated fully by the firms that are hiring or creating jobs, as the problem has been widespread and most firms are affected. Securities industry employment in New York grew 4.3 percent in 2007, and is estimated to decline by 0.8 percent in 2008 and further by 9.0 percent in 2009 and 2.0 percent in 2010 (see Figure 40). From 2007 to 2010, the State is expected to lose 64,200 jobs, or about 9.0 percent overall in the financial activities sector. This is higher than the rate of sector employment lost during the last two employment downturns. The financial activities sector lost 7.6 percent of total jobs from 1988 to 1992; it lost 6.9 percent of jobs from 2000 to 2003. Industry employment had been growing since the sharp declines during 2002 and 2003.



Note: Data for 2008 is estimated; 2009 and 2010 are forecasts.
Sources: NYS Department of Labor, QCEW; NYS Assembly Ways and Means Committee staff.

Figure 40

Regionally, employment increased in most sectors in both the upstate and downstate regions until the second quarter of 2008, though the rates of expansion of the sectors showed regional variations. The largest regional job gains were in New York City. In all regions, the largest employment level increase in recent years was in the education and health sector.

Table 9 shows the sectoral rates of year-over-year employment growth by region for the most recent quarter for which data is available. From the second quarter of 2007 to the second quarter of 2008, construction employment growth in New York City was 3.7 percent, whereas the New York City suburb's rate of growth was 1.5 percent. The high rate of employment growth in the construction sector in New York City is a result of both non-residential construction as well as public construction spending on mass transit, schools, roads, and bridge projects. Employment was lost in the manufacturing sector for the same period in all regions. However, manufacturing represents a larger share of total upstate employment than that of total downstate employment.[47]

Table 9

New York State Employment Change
2007:Q2 to 2008:Q2
(Percent Change)

	New York State	Downstate		Upstate New York
		New York City	NYC Suburbs	
Total	**1.0**	**1.4**	**0.3**	**0.5**
Mgmt. of Companies	3.4	**5.6**	(1.6)	2.9
Professional Services	3.1	**3.6**	0.9	2.6
Construction	2.9	**3.7**	1.5	2.2
Leisure and Hospitality	2.6	**4.2**	1.1	1.6
Education and Health	2.0	1.7	**2.3**	1.9
Transportation and Utilities[1]	1.6	1.2	**2.9**	0.5
Other Services[2]	1.2	**1.1**	0.3	0.8
Government	1.0	0.8	**1.5**	1.0
Retail Trade	0.5	**1.3**	(0.1)	0.2
Information	(0.3)	**1.5**	(4.1)	(3.0)
Wholesale Trade	(0.6)	**(0.6)**	(1.5)	(1.2)
Financial Activities[3]	(0.7)	**0.1**	(4.1)	(1.2)
Manufacturing[4]	(3.0)	(5.1)	**(2.6)**	(2.6)

Note: Downstate employment grew 1.0 percent during this period. Bolded numbers are largest in each sector.
[1] Transportation, Warehousing, and Utilities.
[2] Includes Administrative, Support, and Waste Management Services.
[3] Financial Activities including Finance, Insurance, Real Estate, Rental, and Leasing.
[4] Manufacturing and Mining.
Source: NYS Department of Labor, QCEW.

New York State employment grew at an average rate of 0.8 percent per year from 1997 to 2007, slower than the national average growth rate of 1.3 percent per year. The regions with the fastest growth in employment during this period were the Mid-Hudson and Long Island regions, which grew at 1.3 percent and 1.2 percent per year, respectively.

[47] In 2007, manufacturing employment made up 4.2 percent of downstate employment and 11.8 percent of upstate employment. Manufacturing employment was 2.8 percent of total New York City employment and 6.5 percent of total State employment.

Employment growth in all upstate regions, except for the Capital region, was slower than the State employment growth.

In 2008, New York State accounted for 6.4 percent of total U.S. payroll employment. The State ranks third in the size of employment, behind California and Texas. Besides Texas, the State performs relatively well in terms of employment growth compared to other large states. In 2008, New York State's employment grew faster than that of the nation. State employment grew 0.3 percent, a fall from 1.4 percent in 2007. New York State employment growth was ranked 21st in 2008 (see Table 10).[48]

Table 10

2008 Employment Growth and Share of National Employment by State				
Geography	Employment Growth		Share of Total U.S. Employment	
	Growth	Rank	Share	Rank
United States	**(0.3)**	**-**	**100.0**	**-**
Top Five				
Wyoming	2.9	1	0.2	51
Texas	2.3	2	7.7	2
District Of Columbia	1.4	3	0.5	39
South Dakota	1.4	4	0.3	24
North Dakota	1.3	5	0.3	48
New York	0.3	21	6.4	3
Bottom Five				
Idaho	(0.9)	47	0.5	47
Florida	(1.3)	48	5.8	4
Arizona	(1.6)	49	1.9	21
Michigan	(1.8)	50	3.0	8
Rhode Island	(2.5)	51	0.4	44

Note: The growth rates and rankings are based on Current Employment Statistics (CES) employment data. This data may differ from QCEW data usually used by the NYS Assembly Ways and Means Committee. The CES data is more timely but subject to possible significant revision. Rankings are based on two decimal places.

Source: U.S. Bureau of Labor Statistics.

As the problems in the housing market spread to the credit market and the rest of the economy, the State started to lose jobs in the fourth quarter of 2008. The unemployment rate in the State was 6.8 percent in December 2008, compared to

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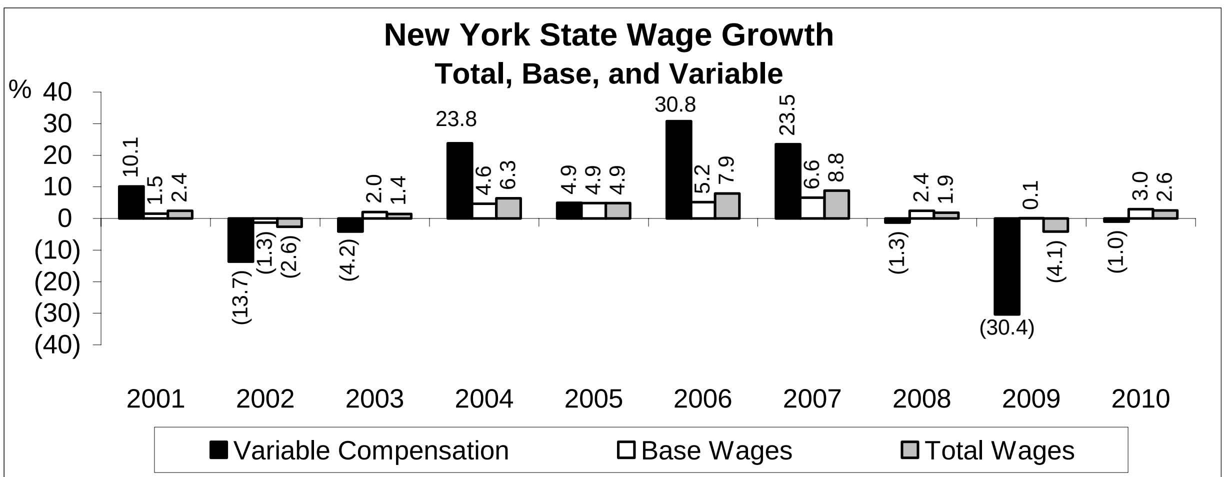
[48] These growth rates and rankings are based on Current Employment Statistics (CES) data, which is more timely than the Quarterly Census of Employment and Wages (QCEW) data but subject to significant revisions. Unless otherwise noted, QCEW data is the basis of statements regarding New York State employment in this section.

4.7 percent in December 2007.[49] Unemployment is expected to continue to rise as firms will likely cut more jobs. The State unemployment rate peaked at 7.0 percent during the last recession and it reached over 9.0 percent during the 1990-91 recession.

Wages

Wages in New York State are expected to fall 4.1 percent in 2009, following estimated growth of 1.9 percent in 2008 (see Figure 41). Base wages will remain relatively steady and will be affected by the overall slowdown in the entire economy. Variable compensation losses will contribute to the decline in 2009 total wages as bonuses in the securities industry fall.[50]

As a result of adverse conditions on Wall Street and the continued limiting of activities due to the credit crunch, total variable compensation in New York State is forecast to fall 30.4 percent in 2009, compared to a drop of 1.3 percent in 2008. The decline in variable compensation in 2009 is unprecedented, and surpasses the 13.7 percent falloff in variable compensation in 2002 after September 11th. The current forecast is also exceptional as it predicts variable compensation to fall three consecutive years through 2010.



Note: Total wage data for 2008 is estimated; 2009 and 2010 are forecasts. Base wages and variable compensation are estimated by the NYS Assembly Ways and Means Committee staff and sum to total wages.
Sources: NYS Department of Labor, QCEW; NYS Assembly Ways and Means Committee staff estimates.

Figure 41

[49] New York State Department of Labor, "Employment and Unemployment Data," Workforce and Industry Data; http://www.labor.state.ny.us/workforceindustrydata/laus.asp.

[50] Variable compensation consists primarily of bonuses and exercised stock options.

In recent years, strong overall wage growth in New York State has been helped by the State's unique concentration of the securities industry in New York City. However, this concentration is not currently contributing to positive wage growth, as firms on Wall Street continue to struggle. When bonuses are strong, they have the potential to support wage growth even in the absence of other factors such as strong employment growth or gains in productivity. However, when bonuses fall and the magnitude is not offset by changes in other fundamentals, the wage growth outlook for the State is significantly weakened. In addition, poor wage growth will have a negative impact on State personal income growth (see Table 11).

Table 11

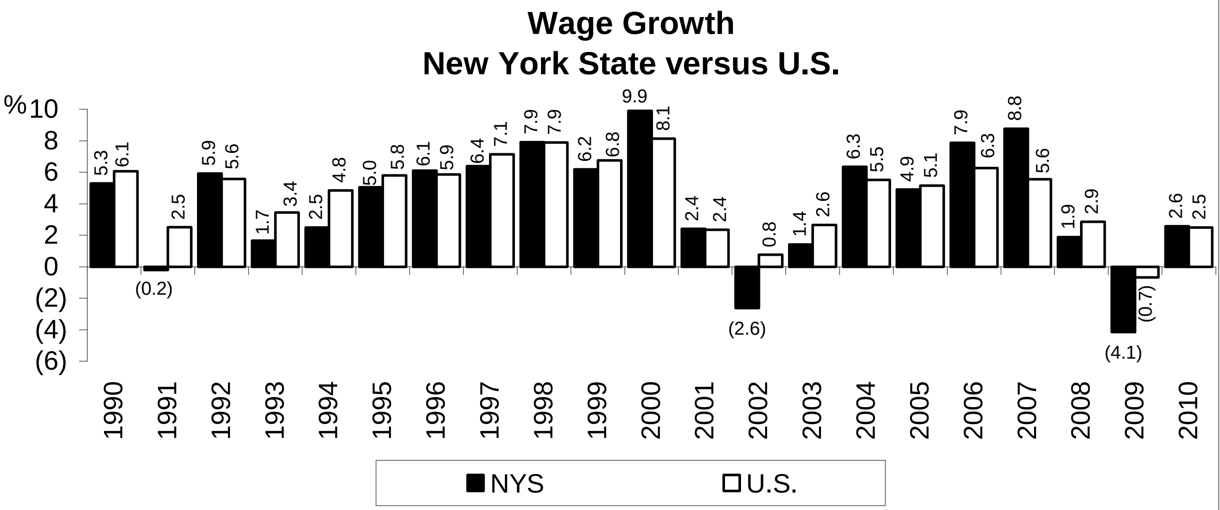
Personal Income, Wages, and CPI
New York State

		Actual 2007	Estimate 2008	Forecast 2009	Forecast 2010
Personal Income	***Percent Change***	**6.5**	**3.2**	**(1.3)**	**3.3**
	Level	880.1	908.4	896.2	926.1
Total Wages	***Percent Change***	**8.8**	**1.9**	**(4.1)**	**2.6**
	Level	508.1	517.6	496.1	508.8
Base Wages	***Percent Change***	**6.6**	**2.4**	**0.1**	**3.0**
	Level	434.7	445.1	445.7	458.9
Variable Compensation	***Percent Change***	**23.5**	**(1.3)**	**(30.4)**	**(1.0)**
	Level	73.4	72.5	50.4	49.9
New York Area CPI	***Percent Change***	**2.8**	**3.9**	**(0.9)**	**2.0**

Note: Levels are in billions of dollars. New York area CPI is based on the New York-Nothern NJ-Long Island, NY-NJ-CT-PA CPI-U series from the U.S. Bureau of Labor Statistics.

Sources: Bureau of Economic Analysis; NYS Department of Labor, QCEW; U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

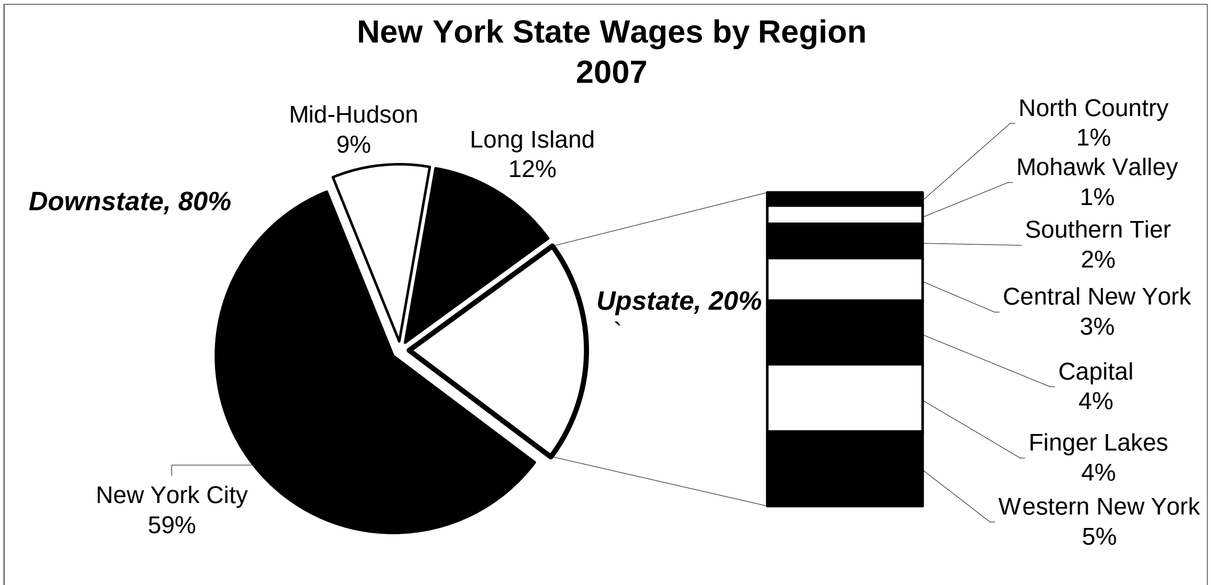
Strong variable compensation growth had been helping New York State wages grow faster than the nation in the earlier part of this decade; however, the crisis on Wall Street has stymied State wage growth. As a result, the United States is projected to have less of a percentage of wage loss than the State in 2009 (see Figure 42). Additionally, base wage growth in the State will be adversely impacted by a softer employment picture than the nation, expanding the differential between national and State wage growth.



Note: Data for 2008 is estimated; 2009 and 2010 are forecasts.
Sources: NYS Department of Labor, QCEW; Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 42

Regionally, wages paid within the State are uneven (see Figure 43). Over half of the wages paid in the State are paid in New York City, although the City accounts for only 42.7 percent of employment and 43 percent of total State population. Wages are spread more evenly throughout the other State regions.



Source: NYS Department of Labor, QCEW.

Figure 43

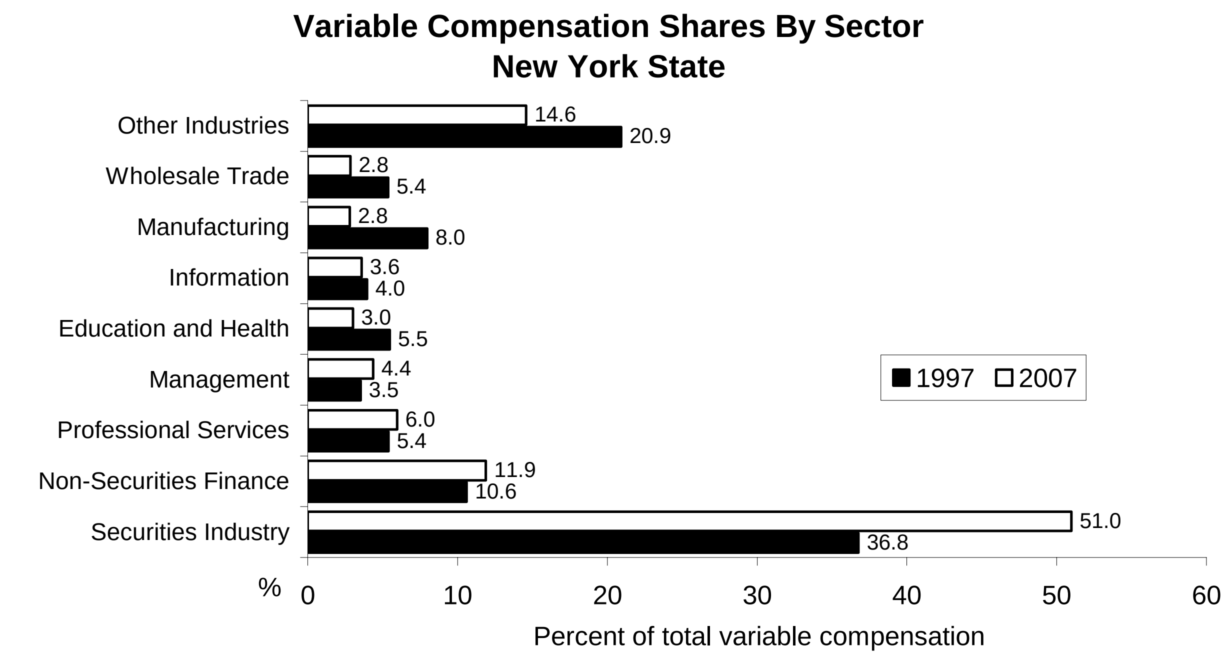
Wage growth is also disparate across the State, with downstate regions generally growing much faster than upstate regions. For example, regional wage growth in 2007 ranged from a high of 11.7 percent in New York City to a low of 3.1 percent in the Capital region. However, New York City will be adversely affected by the steep drop in bonuses on Wall Street; therefore, New York City wages may not grow faster than other regions throughout the forecast period.

Variable Compensation

Variable compensation is the most volatile component of New York wages and plays an important role in the forecasting of State wages.[51] Variable compensation accounted for an estimated average of 11.1 percent of total State compensation over the last five years. Since the 1970s, this share has increased from around five percent. Even though the share of variable compensation is small compared to base wages, its impact on changes in total compensation cannot be ignored.

The securities industry accounts for the largest portion of State variable compensation paid in New York State (see Figure 44). In 2007, the industry paid 51.0 percent of variable compensation. This share has increased significantly over the past two decades. Before 2000, the securities industry accounted for less than 40 percent of total State variable compensation. However, in 2000 the share jumped to 45 percent (from 30 percent in 1999) as Wall Street activities reached record levels. This share is forecast to once again fall below 50 percent in both 2009 and 2010 as Wall Street activities slow throughout the forecast period.

[51] There is no known series of data for state or national variable compensation. The NYS Assembly Ways and Means Committee staff estimates variable compensation based on seasonal variations in wage patterns. These seasonal patterns are broken down by sector (at the NAICS three-digit level) to improve the precision of the estimate. The growth in this variation over time is also accounted for in the estimate. Since this estimate is based on seasonal variation, it may underestimate bonuses and commissions that come at frequent intervals throughout the year. It also may underestimate stock options to the extent that they are exercised throughout the year. On the other hand, in some cases non-variable pay may be included in variable compensation if there are regular seasonal patterns (e.g., if overtime regularly occurs in a certain quarter). Therefore, variable compensation contains high uncertainty—even in terms of the data history.



Note: The *Other Industries* category includes administrative and other services, construction, retail trade, leisure and hospitality, and transportation and utilities.
Sources: NYS Department of Labor; NYS Assembly Ways and Means Committee staff.

Figure 44

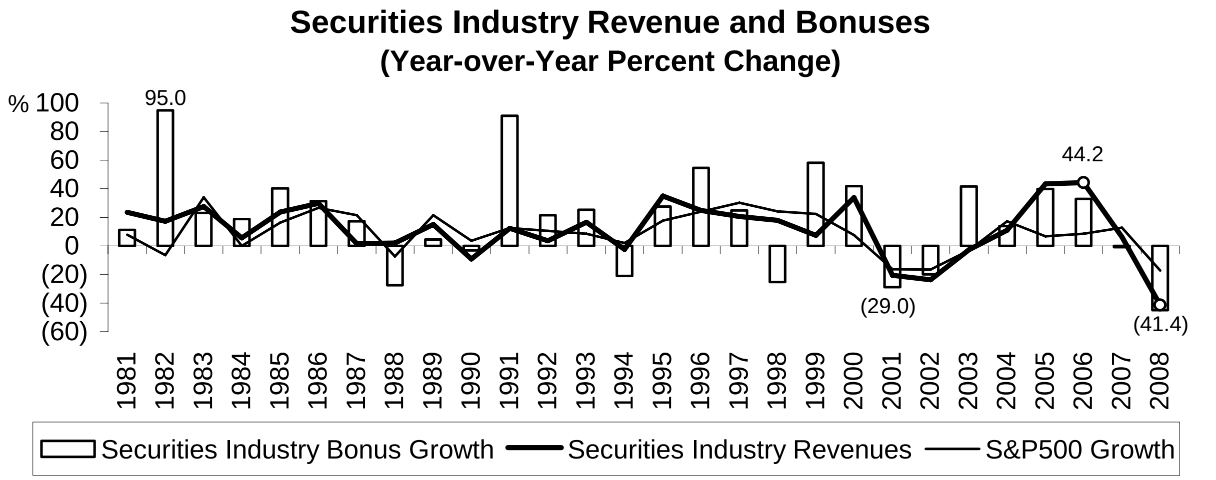
The NYS Assembly Ways and Means Committee staff estimates that New York State total variable compensation, which was $59.5 billion in 2006, increased by 23.5 percent to $73.4 billion in 2007. Total variable compensation is expected to decrease by 1.3 percent in 2008 and another 30.4 percent in 2009. These declines will be a direct result of a major pullback in securities industry bonus payments. Declines in variable compensation for other sectors will be relatively small.

Securities Industry

The securities industry is important to the overall health of the State economy. While it accounts for less than three percent of total State employment, the industry comprised more than fifteen percent of total State wages. As a result, securities industry performance has a considerable impact on the State budget. As problems in housing and the credit market intensified, industry revenue and profit have declined due to slow activities and huge write-downs by many firms. The securities industry suffered significant losses in 2007, the first time in more than fifteen years.[52]

[52] Data is based on NYSE-member firms only.

Securities industry variable compensation is the most volatile component of State wages and represents one of the major forecasting risks to the New York State forecast. Securities industry bonuses are related to industry revenues and profits (see Figure 45). Historically, a decline in securities industry revenues coincided with a drop in bonuses. Revenues may no longer automatically translate into strong profits as write-downs are taken into consideration. On a fiscal year basis, New York State securities industry variable compensation is estimated to fall 45.0 percent in State Fiscal Year (SFY) 2008-09 to $19.7 billion, while total variable compensation is estimated to decline 27.4 percent. Securities industry variable compensation is expected to fall further by 17.1 percent to $16.4 billion in SFY 2009-10.



Note: Securities Industry Revenues data for 2008 is first three quarters only. Bonus growth is on a fiscal year basis, all other series are calendar year.

Sources: Securities Industry and Financial Market Association; NYS Assembly Ways and Means Committee staff.

Figure 45

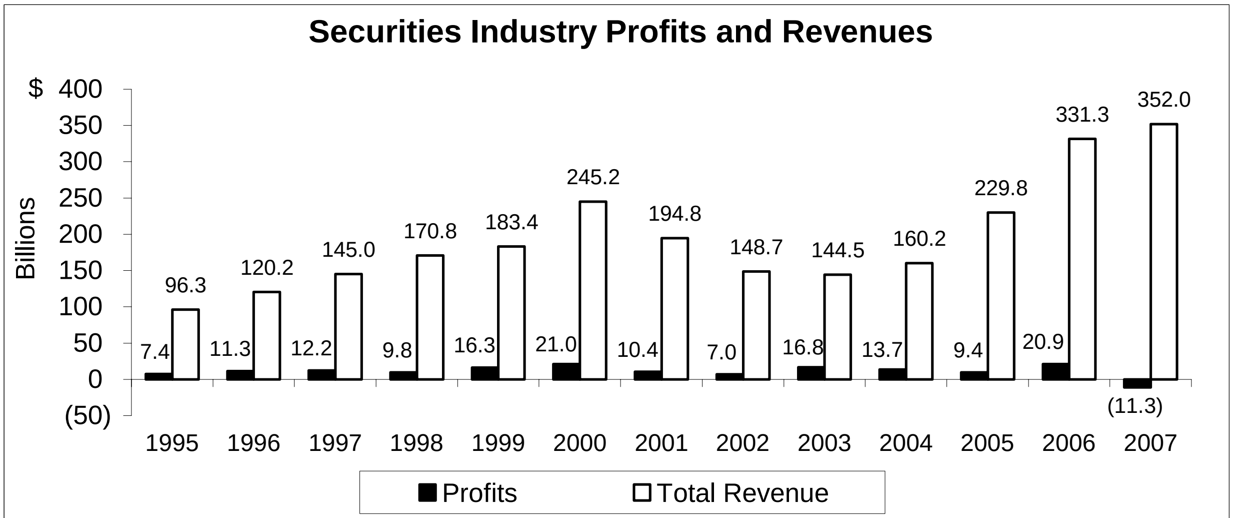
A poor performance in the third and fourth quarter of 2007 had a significant detrimental impact on the overall securities industry profits in 2007. Although the third and fourth quarters reported profits for many securities industry firms were poor since many firms had to include write-downs, the bonuses paid to workers for 2007 performance held up better than expected. Since many of the 2007 bonuses were paid in the first quarter of 2008, this contributed to 2008 calendar year wage numbers.

Although the bonus outlook may be forever changed as major investment banks collapse or convert to bank holding companies, some firms were able to pay bonuses in late 2008, even when faced with enormous public and political pressure to forego discretionary compensation. Merrill Lynch reportedly paid $3 to $4 billion in bonuses on

December 31, 2008. Also, Goldman Sachs eased stock option restrictions in January 2009, allowing employees to cash in previously granted shares to access cash.

After rising 44.2 percent in 2006 from 2005, total revenue for New York Stock Exchange (NYSE) member firms grew only 6.3 percent in 2007, due largely to write-downs and weak underwriting revenues.[53] Gross revenue for the National Association of Securities Dealers (NASD) and NYSE member firms in the third quarter of 2008 were $70.4 billion, 35.3 percent below the third quarter of 2007. Revenues in a few areas were strong, especially from commissions and fees, which dropped slightly from a record high of $14.4 billion set in the first quarter of 2008.[54]

Revenue hit a record high in 2007; however, securities industry profits turned negative for the first time in more than fifteen years (see Figure 46). This loss continued into 2008. NYSE member firms reported loss of $8.7 billion in the third quarter of 2008 after a total loss of $20.7 billion in the first half of 2008. Weakened revenue will be reflected in variable wages as smaller bonuses are paid throughout the industry and several top executives forgo bonuses altogether.



Note: Industry profits are before tax. Numbers are for NYSE-member firms only.
Source: Securities Industry and Financial Markets Association.

Figure 46

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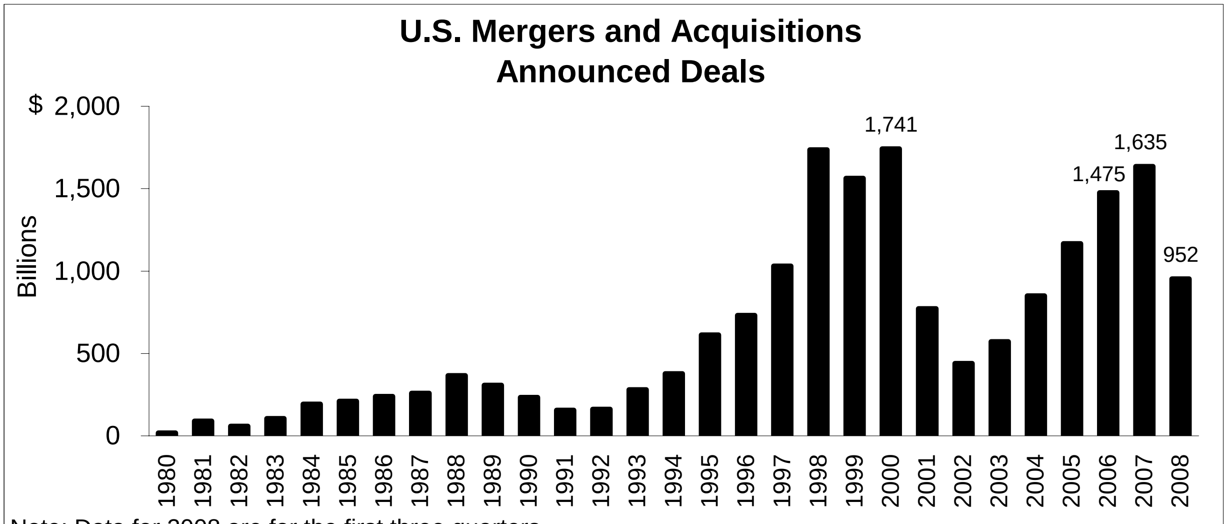
[53] Paul Rainy, "U.S. Securities Industry Financial Results: 2007," Securities Industry and Financial Markets Association, Research Report, vol. 3, no. 5, May 13, 2008, http://www.sifma.org/research/pdf/RRVol3-5.pdf.

[54] Paul Rainy, "Securities Industry Reports Losses in 3Q'08," Securities Industry and Financial Markets Association, Rearch Report, vol. 4, no. 1, January 21, 2009, http://www.sifma.org/research /pdf/RRVol4-1.pdf.

In 2007, announced worldwide merger and acquisition (M&A) deals surpassed a record, amounting to $4.7 trillion. In fact, the total transaction value of merger and acquisition activities in the first half of 2007 was at the highest recorded level. As the problems in the housing market and the credit market continued to spread, M&A activity slowed markedly in the third quarter of 2007 and has still not rebounded. According to Thompson Reuters, the volume of M&A in the first three quarters of 2008 was down 25 percent from the first three quarters of 2007. However, it was close to the volume for the first nine months of 2006. As problems in the credit market remain, many M&A deals are unable to find favorable financing and therefore cannot proceed (see Figure 47).

Initial public offering activities, another area that can offer high profits for securities industry firms, have also been curtailed. The number of Initial Public Offerings (IPOs) issued in 2008 was the lowest since Dealogic started to track the market in 1995. Global value of IPOs globally was also sharply down in 2008 compared to 2007. Companies that went public raised $77 billion in 2008, down from $278.8 billion in 2007.[55] A rebound depends on the return of health to the financial markets. The return of IPOs also depends on the return of confidence in the market, and the willingness of investors to once again take risks.



Note: Data for 2008 are for the first three quarters.
Source: Thomson Financial.

Figure 47

[55] Lynn Cowan, "Debut Is Uncertain for IPO Revival," Wall Street Journal, Digital Network, January 2, 2009, http://online.wsj.com/article/SB123076344251746581.html?mod=googlenews_wsj.

Going forward, industry revenue and profits are expected to continue to decline significantly due to problems in financial markets, slow financial activities, and the global downturn creating a bleak outlook for Wall Street employment. Nearly 300,000 job cuts were announced for the national financial activities sector in 2007 and 2008.[56] As financial market conditions continue to deteriorate, more layoffs by financial firms are expected.[57] New York may be impacted more than the rest of the nation by layoffs in the industry due to the high concentration of finance jobs in the New York City area.

The turmoil in financial markets diminished 2008 securities industry profitability and will depress 2009 profits. The companies will be affected not only by continuing problems in the mortgage and financial industries, but also by other credit problems such as the rising default rate on credit cards, home equity loans, and auto loans.[58]

Historically, trading gains and commissions were the two largest industry revenues. Since the start of the housing market correction in 2007, firms have reassessed the value of their assets that were linked to subprime mortgages such as mortgage-backed securities (MBS). As more and more subprime loans have been foreclosed, firms continue to write-down the value of their holdings.

As of January 2009, more than 100 banks and financial firms worldwide have reported more than $1 trillion in write-downs and losses.[59] As a result of write-downs and losses from assets related to U.S. subprime mortgages, financial industries reported overall trading losses starting in the third quarter of 2007 (see Figure 48).

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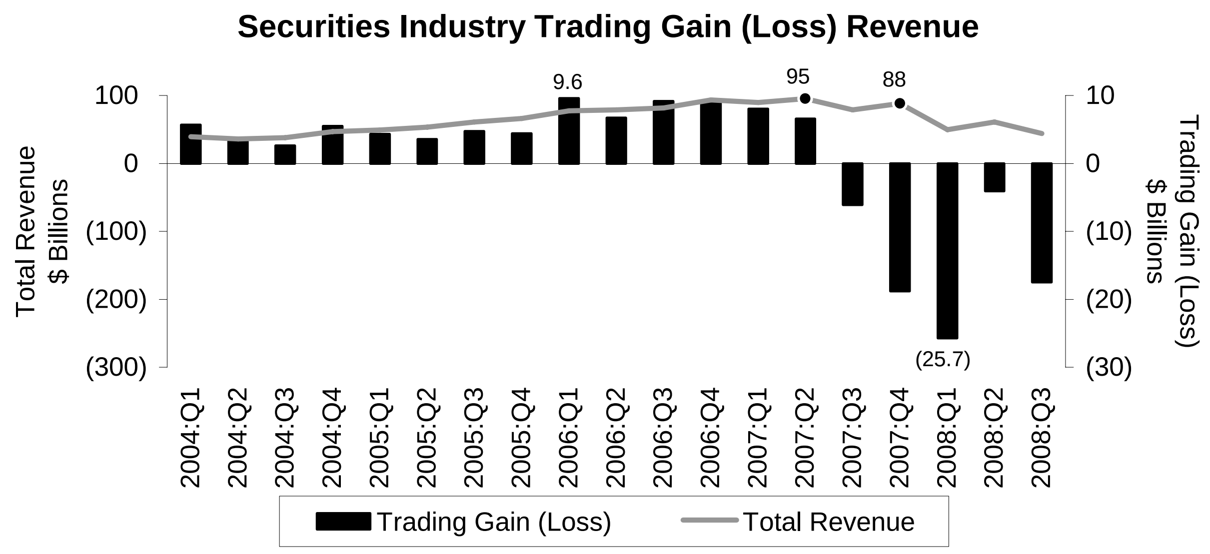
[56] Greg Morcroft, "Citigroup Plans To Cut About 50,000 Jobs," *MarketWatch* (New York), November 17, 2008, http://www.marketwatch.com/news/story/Citigroup-plans-50000-job-cuts/story.aspx?guid=%7B496F4689-44F8-4DDF-91EB-7B01093B37E6%7D.

[57] Joseph Giannone, Reuters: New York, "Many More Job Cuts Ahead for Wall St. Banks," *Reuters*, February 15, 2008, http://www.reuters.com/article/bankingFinancial/idUSN1556254520080218.

[58] Ken Sweet, "JPMorgan Dodges Subprime Bullet; Hit by Credit Cards," *FOXBusiness*, January 16, 2008, http://www.foxbusiness.com/markets/article/jpmorgan-dodges-subprime-bullet-hit-credit-cards_439407_2.html.

[59] As of January 20, 2009, *Bloomberg.com* reported that global write-downs and losses totaled $1 trillion.



Note: NYSE-member firms only.
Sources: Securities Industry and Financial Markets Association.

Figure 48

State Housing Market

The New York State housing market has performed better than the nation. More home choices, moderate pricing, and low mortgage interest rates have helped keep the State housing market on solid ground. Upstate homes are much more affordable than in downstate areas. Home prices in the State dropped in the area that prices have been appreciating rapidly in the past; however, home prices still appreciated in most upstate metros from the third quarter of 2007 to the third quarter of 2008. Home prices in the State dropped 2.7 percent compared to a drop of 4.0 percent in the nation (see Table 12).

Table 12

New York State Home Price Appreciation Comparison 2001:Q3 to 2008:Q3 (Percent Change)			
	OFHEO Existing Home Price Index		
	2001:Q3-2006:Q3	2006:Q3-2007:Q3	2007:Q3-2008:Q3
Buffalo-Niagara Falls	26.3	3.2	2.9
Syracuse	36.4	2.9	2.8
Albany-Schenectady-Troy	67.8	4.5	0.3
Rochester	20.8	2.0	(0.2)
New York-White Plains	78.9	1.5	(4.5)
Nassau-Suffolk	81.6	(0.7)	(5.8)
NYS	**66.4**	**1.5**	**(2.7)**
U.S.	**48.3**	**1.8**	**(4.0)**
New York (S&P/Case-Schiller)	76.8	(3.4)	(7.0)

Note: The OFHEO index presented herein may show different price changes from the S&P/Case-Shiller Index in Figure 20. This is because the two indices use different data. The OFHEO index is based on homes with conforming loans, which have a loan limit of $417,000 for single-family homes. Therefore, the OFHEO index does not reflect price changes for more expensive homes.
Sources: Office of Federal Housing Enterprise Oversight (OFHEO); Standard & Poor's.

As in the nation, ARMs had become popular in recent years. In New York State, the proportion of subprime mortgages with adjustable rates rose from less than 2,000 loans in the first quarter of 1998 to more than 80,000 loans in the third quarter of 2008. Foreclosure filings in the State have been increasing rapidly since mid-2006, especially for those subprime borrowers with ARMs. As of November 2008, foreclosure rates for subprime borrowers with ARMS were more than four times that of subprime borrowers who have fixed-rate mortgages (FRMs).[60] In 2008, the foreclosure rate in the State was 0.63 percent, while the national foreclosure rate was 1.8 percent.[61]

Housing has become more affordable recently, especially in the downstate areas. The ratio of the median home price divided by median household income in New York/White Plains fell from 8.8 to 7.9 from the third quarter of 2007 to the third quarter of 2008. Similarly, the Housing Opportunity Index in the New York/White Plains

[60] Federal Reserve Bank of New York, "New York State Loan Performance Data," November 2008, www.New Yorkfed.org/ regional/ny_november.xls.

[61] RealtyTrac Staff, "Foreclosure Activity Increases 81 percent in 2008," *RealtyTrac.com* (Irvine, CA) January 15, 2009, http://www.realtytrac.com/ContentManagement/pressrelease.aspx?ChannelID=9&ItemID=5681&accnt=64847.

area rose from 7.1 percent in the third quarter of 2007 to 10.6 percent in the third quarter of 2008.[62]

The recent decline of home prices in areas that have been appreciating rapidly may improve the competitiveness within a region, especially in the downstate areas. Elevated home prices in Long Island have made purchasing a house out of reach for many residents. In a recent poll by the Long Island Index, more than 50 percent of the respondents indicated that it was somewhat or very difficult to pay their monthly rent or mortgage payments. Lack of affordable housing in Nassau and Suffolk counties remains a problem, and could be a cause of the out-migration of young workers.[63]

Although residential real estate activities in the State have performed well, commercial real estate, especially the office market, deteriorated in 2008. Slow demand due to lay-off caused leasing activity to drop 20.0 percent in 2008 compared to 2007. Overall vacancy rate in Manhattan rose from 4.5 percent at the end of 2007 to 6.6 percent in the fourth quarter of 2008, while availability rate increased from 7.7 percent in 2007 to 11.6 percent in 2008.[64]

Capital Gains

The most important factors that drive capital gains are the performance of financial markets, particularly equity markets, and the real estate markets. The prolonged contraction of the housing market has resulted in the decline of housing prices in New York State at an annualized rate of 8.9 percent in the third quarter of 2008. The stock markets have fallen significantly since the end of 2007 due to turmoil in the financial markets sparked by the distressed housing market. Accordingly, these disturbances in the economy will have a significant adverse effect on capital gains realization in New York State.

In 1999, corporate equity holdings accounted for 41.9 percent of total realized U.S. capital gains, while real estate accounted for 10.6 percent, compared to 37.8 percent and

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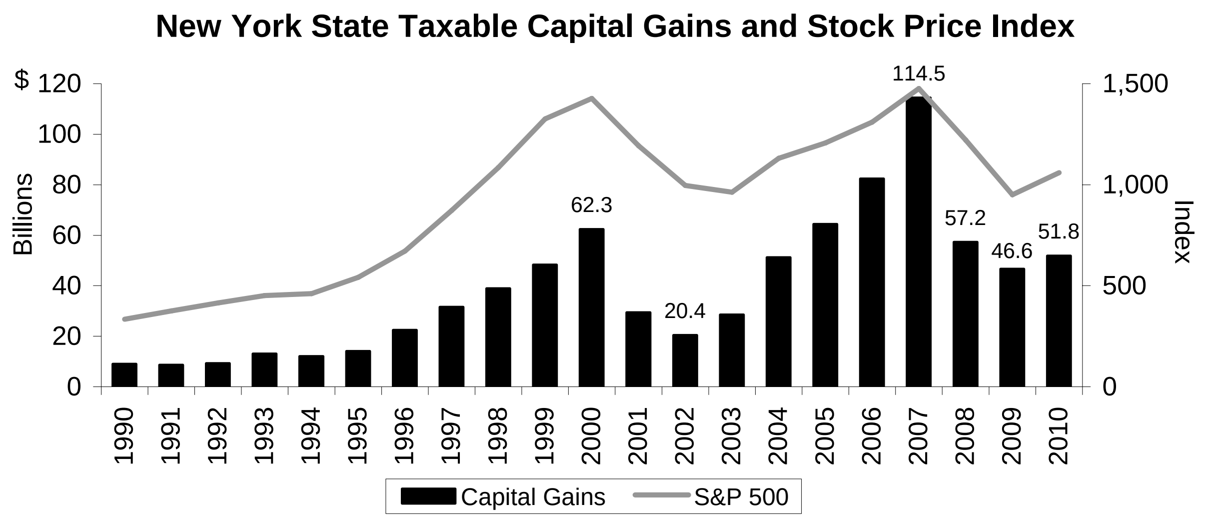
[62] The Housing Opportunity Index is defined as the share of homes sold in the area that would have been affordable to a family earning the median income (i.e., the total monthly payment is less than 28 percent of the monthly median household income).

[63] Long Island Index, "2009 Long Island Index," http://www.longislandindex.org/fileadmin/pdf/2009_Index_Files/LIINDEX_2009.pdf.

[64] Vacancy rate is based on space that is physically vacant. The availability rate defined as space that is available for occupancy within the next twelve months. See Grubb & Ellis Company, "Rental Rates All over the Board," *Office Market Trends, New York City*, Grubb & Ellis Research, Fourth Quarter 2008, http://www.grubb-ellis.com/pdf/metro_off_mkttrnd/NYC_Office_ 4Q08%20(2).pdf.

24.6 percent in 1985, respectively.[65] Capital gains realizations grew rapidly during the booming stock market of the late 1990s, but plummeted in 2001, triggered by the steep decline in stock prices from post-bubble corrections in the stock market and the events of September 11th.[66] After a further decline in 2002, taxable capital gains began to steadily rise in 2003 with the recovering stock market and the strengthening housing market (see Figure 49).



Note: Data for 2007 is estimated; the first forecast period is 2008.
Sources: NYS Department of Taxation and Finance; NYS Assembly Ways and Means Committee staff.

Figure 49

Solid gains in the stock markets and higher home prices led to an estimated record level of New York State capital gains of $114.5 billion in 2007. However, given the overall decline in economic growth coupled with the continued deterioration in the housing market and the significant falloff in corporate equity prices, taxable capital gains are expected to decline 50.0 percent in 2008 to $57.2 billion and an additional 18.5 percent in 2009 to $46.6 billion. In 2010, taxable capital gains are forecast to increase 11.1 percent to $51.8 billion, partly reflecting a gradual equity market recovery.

[65] Internal Revenue Service, "SOI Tax Stats - Individual Income Tax Returns with Short-Term and Long-Term Capital Gains and Losses," 1985 and 1999 issues, Table 2 from each issue.

[66] New York State capital gains were more adversely affected by the events of September 11th because the equity market is one of the most important sectors in the State.

New York State Forecast Comparison

The NYS Assembly Ways and Means Committee staff's New York State employment growth forecast for 2009 is negative 2.0 percent (see Table 13). The staff forecast is lower than the Division of the Budget by 0.1 percentage point, and higher than Moody's Economy.com by 0.3 percentage point and IHS Global Insight by 1.3 percentage points. The staff's forecast for New York State wages for 2009 is negative 4.1 percent. It is equal to the Division of the Budget forecast and is higher than Moody's Economy.com by 1.1 percentage points, and IHS Global Insight by 0.7 percentage point.

Table 13

New York State Forecast Comparison
(Percent Change)

	Actual 2007	Estimate 2008	Forecast 2009	Forecast 2010
Employment				
Ways and Means	1.4	0.3	(2.0)	(0.1)
Division of the Budget	1.4	0.3	(1.9)	(0.3)
IHS Global Insight	N/A	N/A	(3.3)	(0.6)
Moody's Economy.com	1.4	0.3	(2.3)	(0.4)
Wages				
Ways and Means	8.8	1.9	(4.1)	2.6
Division of the Budget	8.8	1.1	(4.1)	2.5
IHS Global Insight	N/A	N/A	(4.8)	2.0
Moody's Economy.com	8.4	2.7	(5.2)	(1.0)

Sources: NYS Assembly Ways and Means Committee staff; New York State Division of the Budget, 2009-10 Executive Budget; 30 Day Amendments, January 15, 2009; Moody's Economy.com, January 2009; IHS Global Insight, January 2009.

The Assembly Ways and Means Committee staff's employment growth forecast for 2010 is negative 0.1 percent. The staff forecast is higher than IHS Global Insight's forecast by 0.5 percentage point, Moody's Economy.com by 0.3 percentage point, and the Division of the Budget by 0.2 percentage point. The staff's forecast for New York State wages for 2010 is 2.6 percent. It is higher than IHS Global Insight by 0.6 percentage point, Moody's Economy.com by 3.6 percentage points, and the Division of the Budget by 0.1 percentage point.

RISKS TO THE FORECAST

Current uncertainty triggered by credit and liquidity issues has caused volatility in the stock market and has also created problems for consumers and businesses, some of whom are no longer able to obtain credit. Should this environment continue to persist beyond the timeline assumed in this forecast, the current forecast would become more pessimistic. The current forecast assumes that a large fiscal stimulus package and other programs will help mitigate economic problems during 2009, enabling the economy to start recovering gradually in late 2009. If the bailout program and stimulus should fail to buoy the confidence of investors in the financial system, the performance of the national and New York State economies would be significantly worse than the forecast presented in this document.

A fiscal stimulus of $827 billion has been factored in to the NYS Assembly Ways and Means Committee staff's forecast. In the forecast, the staff assumes that $714 billion of the total stimulus will be disbursed throughout 2009 and 2010. Any significant deviation in the size or allocation of the federal stimulus from that assumed by the staff could have a considerable impact on the results of the national and New York State forecasts discussed in this document.

In addition, many other risks to the national economic forecast exist. The downturn in the housing market has been a drag on economic growth and problems in the sector remain. Continued concerns in the housing market could lead to further weakening of economic growth.

Energy prices have declined sharply in recent months. Should recent decreases in demand continue, it would allow for a drop in oil prices beyond the assumption of this forecast. A further decrease in oil prices would offer further relief to consumers and businesses. However, energy prices can be influenced by a variety of unpredictable factors such as speculation, inclement weather, and geo-political tensions. Issues in any of these areas could cause spikes in energy prices that, if sustained, may further depress overall economic growth.

The health of the global economy is also a concern. If the financial crisis were to deepen further and adversely affect the global economy to a greater extent than assumed in this forecast, global economic performance will deteriorate further and more negatively impact the outlook.

Other current events that may add to economic uncertainty include the wars in Iraq and Afghanistan, tensions in the Middle East, and other geo-political issues. Also the continuation of bad news such as further write-downs, company bankruptcies, and investment scandals can continue to depress confidence in the ability of the economy to recover.

The current economic climate presents particular challenges and risks to the New York State forecast. Since it is unclear the extent to which the Wall Street landscape will be permanently changed when the economy emerges from the current crisis, there is great ambiguity surrounding the New York State outlook. Wall Street and the financial markets play a central role in the State economy, and drastic cuts in Wall Street compensation and the resulting reductions in Wall Street tax revenues have critical implications for the economic health of the State. However, a faster turnaround than expected for Wall Street activities offers some upside potential for the forecast.

The economy is in a fragile state, and its recovery is susceptible to many factors. Should the federal government's efforts through the bailout program and proposed fiscal stimulus fail, credit markets would remain stringent and consumer confidence would likely continue to falter, inhibiting the economy's ability to recover. In addition, failure of the housing market to bounce back over the forecast period and volatile energy markets could prolong the United States recession, causing it to be even more severe than forecasted. Should this occur, the negative impact on New York State would be more serious.

APPENDICES

Appendix A

U.S. Recessions Since World War II (Based on Series-Specific Turning Points)					
GDP			Employment		
Peak to Trough	Duration (Quarters)	Depth	Peak to Trough	Duration (Quarters)	Depth
1948:Q4-1949:Q4	4	(1.7%) ($28.1)	1948:Q3-1949:Q4	5	(4.4%) (1,973.0)
1953:Q2-1954:Q1	3	(2.7%) ($55.7)	1953:Q2-1954:Q3	5	(3.2%) (1,635.0)
1957:Q3-1958:Q1	2	(3.7%) ($86.8)	1957:Q2-1958:Q2	4	(4.1%) (2,200.7)
1960:Q1-1960:Q4	3	(1.6%) ($41.2)	1960:Q2-1961:Q1	3	(1.7%) (910.0)
1969:Q3-1970:Q4	5	(0.6%) ($24.4)	1970:Q1-1970:Q4	3	(1.0%) (737.7)
1973:Q4-1975:Q1	5	(3.1%) ($135.7)	1974:Q3-1975:Q2	3	(2.7%) (2,087.3)
1980:Q1-1980:Q3	2	(2.2%) ($113.9)	1980:Q1-1980:Q3	2	(0.9%) (847.0)
1981:Q3-1982:Q3	4	(2.7%) ($144.6)	1981:Q3-1982:Q4	5	(3.0%) (2,734.3)
Average over All Previous Recessions	3.5	(2.3%) ($78.8)	Average over All Previous Recessions	3.8	(2.6%) (1,640.6)
1990:Q3-1991:Q1	2	(1.3%) ($90.0)	1990:Q2-1991:Q3	5	(1.4%) (1,498.3)
2000:Q4-2001:Q3	3	(0.2%) ($16.6)	2001:Q1-2003:Q3	10	(2.0%) (2,629.3)
2008:Q2-2009:Q2	4	(2.9%) ($335.3)	2007:Q4-2009:Q4	8	(3.8%) (5,257.5)

Note: Depth is defined as the level change from the peak level to the trough level. GDP, consumption, and investment are in billions of chained 2000 dollars. Employment is total nonfarm in thousands. The percentages are the depth divided by the peak level.

Sources: Bureau of Economic Analysis; U.S. Bureau of Labor Statistics, CES; NYS Assembly Ways and Means Committee staff.

Appendix B

U.S. Recessions Since World War II (Based on Series-Specific Turning Points)					
Consumption			**Investment**		
Peak to Trough	**Duration (Quarters)**	**Depth**	**Peak to Trough**	**Duration (Quarters)**	**Depth**
1948:Q4-1949:Q4	No Decline	3.3% 35.4	1948:Q3-1949:Q2	3	(30.9%) ($67.4)
1953:Q2-1954:Q1	3	(0.5%) ($6.9)	1953:Q2-1954:Q3	5	(11.1%) ($24.8)
1957:Q3-1958:Q1	3	(0.6%) ($8.1)	1957:Q3-1958:Q2	3	(17.3%) ($43.2)
1960:Q2-1960:Q3	1	(0.4%) ($6.6)	1960:Q1-1960:Q4	3	(21.7%) ($64.9)
1970:Q3-1970:Q4	1	(0.3%) ($7.0)	1969:Q3-1970:Q1	2	(8.4%) ($39.1)
1973:Q3-1974:Q1	2	(1.2%) ($32.8)	1973:Q4-1974:Q3	3	(12.1%) ($73.2)
1979:Q4-1980:Q2	2	(2.4%) ($81.3)	1979:Q1-1980:Q3	6	(19.9%) ($146.8)
1981:Q3-1981:Q4	1	(0.8%) ($26.0)	1981:Q3-1982:Q4	5	(22.5%) ($163.2)
Average over All Previous Recessions	1.9	(0.3%) ($16.7)	Average over All Previous Recessions	3.8	(18.0%) ($77.8)
1990:Q3-1991:Q1	2	(1.1%) ($54.5)	1990:Q2-1991:Q2	4	(12.7%) ($116.6)
2000:Q4-2001:Q3	No Decline	1.1% 75.5	2000:Q2-2001:Q4	6	(16.5%) ($295.2)
2008:Q2-2009:Q2	4	(2.7%) ($223.6)	2007:Q3-2009:Q3	8	(23.1%) (425.3)

Note: Depth is defined as the level change from the peak level to the trough level. GDP, consumption, and investment are in billions of chained 2000 dollars. Employment is total nonfarm in thousands. The percentages are the depth divided by the peak level.

Sources: Bureau of Economic Analysis; U.S. Bureau of Labor Statistics, CES; NYS Assembly Ways and Means Committee staff.

Appendix C

NYS Employment and Wages in NAICS Sectors						
	Employment (Thousands)			Wages ($ in Billions)		
	Estimate 2008	Forecast 2009	Forecast 2010	Estimate 2008	Forecast 2009	Forecast 2010
Total	**8,557.1**	**8,382.5**	**8,373.8**	**517.6**	**496.1**	**508.8**
Education & Health	1,521.2	1,551.5	1,584.5	65.9	69.1	72.3
Government	1,439.0	1,435.2	1,430.9	74.0	76.6	78.9
Retail Trade	890.0	861.6	858.7	26.6	26.7	27.3
Other Services	759.2	725.5	721.1	28.7	28.2	29.2
Financial Activities	716.7	676.3	665.0	121.4	98.0	97.7
Leisure & Hospitality	708.1	686.4	685.4	18.5	18.3	19.1
Professional Services	587.5	573.7	577.3	51.3	49.8	52.3
Manufacturing	538.0	510.1	492.2	30.8	29.9	30.0
Construction	358.2	351.3	357.2	21.1	21.0	21.8
Wholesale Trade	352.0	340.1	336.6	24.4	24.3	24.9
Transport & Utilities	269.0	258.6	253.0	13.5	13.6	13.9
Information	261.0	253.8	253.7	23.0	22.7	23.2
Management of Companies	129.6	125.3	125.1	17.7	17.2	17.7

Note: Some NAICS sectors are grouped with others. For sector definitions, see Appendix J.

Sources: NYS Department of Labor, QCEW; NYS Assembly Ways and Means Committee staff.

Appendix D

NYS Employment and Wage Growth in NAICS Sectors (Percent Change)	Employment			Wages		
	Estimate 2008	Forecast 2009	Forecast 2010	Estimate 2008	Forecast 2009	Forecast 2010
Total	**0.3**	**(2.0)**	**(0.1)**	**1.9**	**(4.1)**	**2.6**
Construction	1.8	(1.9)	1.7	7.3	(0.4)	3.9
Education & Health	2.0	2.0	2.1	5.6	4.9	4.6
Government	0.5	(0.3)	(0.3)	3.9	3.5	2.9
Leisure & Hospitality	1.2	(3.1)	(0.2)	2.8	(0.9)	4.2
Professional Services	2.6	(2.3)	0.6	5.6	(2.9)	5.1
Transport & Utilities	0.5	(3.9)	(2.2)	1.4	1.0	2.4
Other Services	0.1	(4.4)	(0.6)	4.3	(1.6)	3.3
Retail Trade	(0.3)	(3.2)	(0.3)	2.1	0.2	2.4
Wholesale Trade	(1.0)	(3.4)	(1.0)	(0.8)	(0.5)	2.3
Information	(0.8)	(2.8)	(0.0)	1.0	(1.2)	2.2
Management of Companies	1.2	(3.3)	(0.2)	(1.8)	(3.2)	2.7
Financial Activities	(1.7)	(5.6)	(1.7)	(1.9)	(19.2)	(0.4)
Manufacturing	(3.5)	(5.2)	(3.5)	(1.1)	(3.1)	0.3

Note: Some NAICS sectors are grouped with others. For sector definitions, see Appendix J.

Sources: NYS Department of Labor, QCEW; NYS Assembly Ways and Means Committee staff.

New York State Economic Outlook
State Fiscal Year

		Actual 2007-08	Estimate 2008-09	Forecast 2009-10	Forecast 2010-11
Employment	***Percent Change***	1.4	(0.8)	(1.5)	0.2
	Level	8,558.3	8,494.1	8366.8	8386.4
Personal Income	***Percent Change***	4.7	0.3	1.2	3.9
	Level	887.5	890.1	901.0	936.4
Total Wages	***Percent Change***	5.0	(2.4)	(0.3)	3.9
	Level	510.1	497.8	496.2	515.6
Base Wages	***Percent Change***	5.0	1.8	1.0	3.1
	Level	436.4	444.3	448.7	462.7
Variable Compensation	***Percent Change***	5.1	(27.4)	(11.3)	11.5
	Level	73.6	53.5	47.4	52.9
CPI (1982-84=100)	***Percent Change***	3.0	2.9	(0.4)	2.1
	Level	229.0	235.7	234.8	239.7

Note: Employment level is in thousands, Wage and personal income levels are in billions of dollars.
Sources: Bureau of Economic Analysis; NYS Department of Labor, QCEW; U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

Appendix F

U.S. Economic Outlook (Levels)

	Actual 2007	Estimate 2008	Forecast 2009	Forecast 2010
Real GDP*	11,523.9	11,664.5	11,438.0	11,676.5
Real Consumption*	8,252.8	8,275.2	8,139.3	8,288.6
Real Investment*	1,809.7	1,698.0	1,437.2	1,558.1
Real Exports*	1,425.9	1,517.7	1,430.8	1,417.2
Real Imports*	1,972.4	1,907.0	1,737.6	1,819.4
Real Government*	2,012.1	2,070.5	2,145.6	2,209.3
*Federal**	752.9	797.4	847.1	876.8
*State and Local**	1,259.0	1,274.1	1,300.2	1,334.3
Personal Income**	11,663.3	12,099.5	12,179.1	12,590.8
*Wages & Salaries***	6,361.9	6,543.7	6,499.0	6,661.3
Corporate Profits (Economic Basis)**	1,642.4	1,508.5	1,403.5	1,482.1
Productivity (1992=100)	137.1	141.0	143.5	147.2
Employment***	137.6	137.1	133.3	133.5
CPI-Urban (1982-84=100)	207.3	215.2	213.0	217.1
S&P 500 Stock Price (1941-43=10)	1,476.7	1,220.9	950.1	1,059.3
Treasury Bill Rate (3-month)****	4.4	1.4	0.4	1.1
Treasury Bond Rate (10-year)****	4.6	3.7	2.8	3.3

* In billions of chained 2000 dollars.
** In billions of dollars.
*** In millions.
**** Annual average rate.

Sources: Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Federal Reserve; Standard and Poor's; NYS Assembly Ways and Means Committee staff.

Appendix G

U.S. Economic Outlook
State Fiscal Year
(Levels)

	Actual 2007-08	Estimate 2008-09	Forecast 2009-10	Forecast 2010-11
Real GDP*	11,596.0	11,599.2	11,500.3	11,840.5
Real Consumption*	8,282.5	8,234.8	8,228.4	8,476.0
Real Investment*	1,799.4	1,631.9	1,441.2	1,619.4
Real Exports*	1,460.3	1,498.8	1,410.5	1,435.6
Real Imports*	1,967.6	1,863.4	1,764.0	1,906.7
Real Government*	2,025.1	2,085.8	2,171.2	2,203.2
*Federal**	761.7	809.2	847.3	855.9
*State and Local**	1,263.4	1,277.8	1,325.4	1,348.6
Personal Income**	11,785.1	12,157.4	12,462.0	13,068.1
*Wages & Salaries***	6,418.0	6,549.7	6,619.9	6,955.7
Corporate Profits (Economic Basis)**	1,636.4	1,455.7	1,403.1	1,538.0
Productivity (1992=100)	138.2	140.8	142.7	146.3
Employment***	137.8	136.4	133.9	135.2
CPI-Urban (1982-84=100)	209.5	215.0	213.9	218.3
S&P 500 Stock Price (1941-43=10)	1,457.9	1,112.1	1,055.6	1,209.6
Treasury Bill Rate (3-month)****	3.6	0.9	0.3	1.5
Treasury Bond Rate (10-year)****	4.4	3.3	2.5	3.3

* In billions of chained 2000 dollars.
** In billions of dollars.
*** In millions.
**** Fiscal Year average rate.

Sources: Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Federal Reserve; Standard and Poor's; NYS Assembly Ways and Means Committee staff.

Appendix H

U.S. Economic Outlook (Percent Change)	Actual 2007	Estimate 2008	Forecast 2009	Forecast 2010
Real GDP	2.0	1.2	(1.9)	2.1
Real Consumption	2.8	0.3	(1.6)	1.8
Real Investment	(5.4)	(6.2)	(15.4)	8.4
Real Exports	8.4	6.4	(5.7)	(1.0)
Real Imports	2.2	(3.3)	(8.9)	4.7
Real Government	2.1	2.9	3.6	3.0
Federal	1.6	5.9	6.2	3.5
State and Local	2.3	1.2	2.1	2.6
Personal Income	6.1	3.7	0.7	3.4
Wages & Salaries	5.6	2.9	(0.7)	2.5
Corporate Profits (Economic Basis)	(1.6)	(8.2)	(7.0)	5.6
Productivity	1.4	2.9	1.8	2.6
Employment	1.1	(0.4)	(2.7)	0.1
CPI-Urban	2.9	3.8	(1.1)	2.0
S&P 500 Stock Price	12.7	(17.3)	(22.2)	11.5
Treasury Bill Rate (3-month)*	4.4	1.4	0.4	1.1
Treasury Note Rate (10-year)*	4.6	3.7	2.8	3.3

* Annual average rate.
Sources: Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Federal Reserve; Standard & Poor's; NYS Assembly Ways and Means Committee staff.

Appendix I

U.S. Economic Outlook
State Fiscal Year
(Percent Change)

	Actual 2007-08	Estimate 2008-09	Forecast 2009-10	Forecast 2010-11
Real GDP	2.3	0.1	(1.2)	2.4
Real Consumption	2.4	(0.6)	(0.9)	2.2
Real Investment	(4.0)	(9.5)	(11.8)	12.2
Real Exports	9.4	3.2	(5.8)	0.5
Real Imports	1.1	(5.5)	(6.6)	7.1
Real Government	2.4	3.1	3.9	1.6
Federal	2.9	6.7	5.4	1.9
State and Local	2.1	1.0	3.0	1.5
Personal Income	5.5	3.0	1.0	3.7
Wages & Salaries	5.0	1.9	(0.4)	3.2
Corporate Profits (Economic Basis)	(1.7)	(9.9)	(4.1)	3.8
Productivity	2.2	2.5	1.9	2.5
Employment	0.9	(1.2)	(2.3)	0.7
CPI-Urban (1982-84=100)	3.3	2.6	(0.5)	2.1
S&P 500 Stock Price (1941-43=10)	8.3	(24.1)	(11.2)	9.9
Treasury Bill Rate (3-month)*	3.6	0.9	0.3	1.5
Treasury Note Rate (10-year)*	4.4	3.3	2.5	3.3

* Fiscal year average rate.
Sources: Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Federal Reserve; Standard & Poor's; NYS Assembly Ways and Means Committee staff.

Appendix J

The North American Industry Classification System (NAICS)

Code	NAICS Title
11	**Agriculture, Forestry, Fishing and Hunting**
111	Crop Production
112	Animal Production
113	Forestry and Logging
114	Fishing, Hunting and Trapping
115	Support Activities for Agriculture and Forestry
21	**Mining**
211	Oil and Gas Extraction
212	Mining (except Oil and Gas)
213	Support Activities for Mining
22	**Utilities**
221	Utilities
23	**Construction**
236	Construction of Buildings
237	Heavy and Civil Engineering Construction
238	Specialty Trade Contractors
31-33	**Manufacturing**
311	Food Manufacturing
312	Beverage and Tobacco Product Manufacturing
313	Textile Mills
314	Textile Product Mills
315	Apparel Manufacturing
316	Leather and Allied Product Manufacturing
321	Wood Product Manufacturing
322	Paper Manufacturing
323	Printing and Related Support Activities
324	Petroleum and Coal Products Manufacturing
325	Chemical Manufacturing
326	Plastics and Rubber Products Manufacturing
327	Nonmetallic Mineral Product Manufacturing
331	Primary Metal Manufacturing
332	Fabricated Metal Product Manufacturing
333	Machinery Manufacturing
334	Computer and Electronic Product Manufacturing
335	Electrical Equipment, Appliance, and Component Manufacturing
336	Transportation Equipment Manufacturing
337	Furniture and Related Product Manufacturing
339	Miscellaneous Manufacturing
42	**Wholesale Trade**
423	Merchant Wholesalers, Durable Goods
424	Merchant Wholesalers, Nondurable Goods
425	Wholesale Electronic Markets and Agents and Brokers

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The North American Industry Classification System (NAICS) -- *(continued)*

Code	NAICS Title
44-45	**Retail Trade**
441	Motor Vehicle and Parts Dealers
442	Furniture and Home Furnishings Stores
443	Electronics and Appliance Stores
444	Building Material and Garden Equipment and Supplies Dealers
445	Food and Beverage Stores
446	Health and Personal Care Stores
447	Gasoline Stations
448	Clothing and Clothing Accessories Stores
451	Sporting Goods, Hobby, Book, and Music Stores
452	General Merchandise Stores
453	Miscellaneous Store Retailers
454	Nonstore Retailers
48-49	**Transportation and Warehousing**
481	Air Transportation
482	Rail Transportation
483	Water Transportation
484	Truck Transportation
485	Transit and Ground Passenger Transportation
486	Pipeline Transportation
487	Scenic and Sightseeing Transportation
488	Support Activities for Transportation
491	Postal Service
492	Couriers and Messengers
493	Warehousing and Storage
51	**Information**
511	Publishing Industries (except Internet)
512	Motion Picture and Sound Recording Industries
515	Broadcasting (except Internet)
516	Internet Publishing and Broadcasting
517	Telecommunications
518	Internet Service Providers, Web Search Portals, and Data Processing Services
519	Other Information Services
52	**Finance and Insurance**
521	Monetary Authorities - Central Bank
522	Credit Intermediation and Related Activities
523	Securities, Commodity Contracts, and Other Financial Investments and Related Activities
524	Insurance Carriers and Related Activities
525	Funds, Trusts, and Other Financial Vehicles
53	**Real Estate and Rental and Leasing**
531	Real Estate
532	Rental and Leasing Services
533	Lessors of Nonfinancial Intangible Assets (except Copyrighted Works)
54	**Professional, Scientific, and Technical Services**
541	Professional, Scientific, and Technical Services

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The North American Industry Classification System (NAICS) -- *(continued)*

Code	NAICS Title
55	**Management of Companies and Enterprises**
551	Management of Companies and Enterprises
56	**Administrative and Support and Waste Management and Remediation Services**
561	Administrative and Support Services
562	Waste Management and Remediation Services
61	**Educational Services**
611	Educational Services
62	**Health Care and Social Assistance**
621	Ambulatory Health Care Services
622	Hospitals
623	Nursing and Residential Care Facilities
624	Social Assistance
71	**Arts, Entertainment, and Recreation**
711	Performing Arts, Spectator Sports, and Related Industries
712	Museums, Historical Sites, and Similar Institutions
713	Amusement, Gambling, and Recreation Industries
72	**Accommodation and Food Services**
721	Accommodation
722	Food Services and Drinking Places
81	**Other Services - except Public Administration**
811	Repair and Maintenance
812	Personal and Laundry Services
813	Religious, Grantmaking, Civic, Professional, and Similar Organizations
814	Private Households
92	**Public Administration**
921	Executive, Legislative, and Other General Government Support
922	Justice, Public Order, and Safety Activities
923	Administration of Human Resource Programs
924	Administration of Environmental Quality Programs
925	Administration of Housing Programs, Urban Planning, and Community Development
926	Administration of Economic Programs
927	Space Research and Technology
928	National Security and International Affairs

Source: Executive Office of the President, Office of Management and Budget, North American Industry Classification System, United States, 2002.