

ECONOMY

The National Economy

The Executive acknowledges that the national economy is in recession. The economy is expected to remain in recession through the second quarter of 2009. The Executive recognizes the great uncertainty in predicting the turning point given the unprecedented credit market conditions, but expects growing demand, persistently lower energy prices, and massive global intervention efforts to eventually drive an upturn in spending.

Federal Stimulus

The Executive's forecast includes a federal stimulus package worth \$220 billion that would be passed at the end of January 2009, and implemented over three years. The assumed stimulus package includes \$178 billion in spending and tax rebates during 2009 (\$80 billion in tax rebates, \$15 billion in extended unemployment insurance benefits, \$33 billion in infrastructure spending, and \$50 billion in Medicaid). For 2010, the Executive has assumed \$30 billion in infrastructure spending and \$10 billion in Medicaid, for a total of \$40 billion. An additional \$2 billion in infrastructure spending is assumed for 2011.

With the stimulus package, real Gross Domestic Product (GDP) is expected by the Executive to decline 0.9 percent in 2009 (see Table 33). Without the stimulus package, the Executive expects GDP to decline 1.6 percent in 2009.

Investment

The Executive expects real residential investment to decline through the third quarter of 2009, as the construction sector continues to contract. Real residential investment is forecast to fall 11.3 percent in 2009, following a decline of 20.6 percent in 2008. The Executive expects falling construction spending will also negatively impact construction and real estate employment.

Employment

The Executive expects employment to decline 1.2 percent in 2009, after falling 0.2 percent in 2008 (see Table 33). The Executive also expects that the unemployment rate will increase to 7.6 percent in 2009 from 5.7 percent in 2008 as job losses accelerate.

Corporate Profits

The Executive estimates that corporate profits will fall 6.8 percent in 2008, and forecasts a fall of 5.9 percent in 2009. This will be three years of consecutive decline, as 2007 corporate profits declined 1.6 percent.

Inflation

The Executive expects prices, as measured by the Consumer Price Index (CPI), to grow 1.4 percent in 2009, after growing 4.1 percent in 2008. Energy prices are indicated as the greatest risk to the inflation forecast by the Executive.

The New York State Economy

The forecast contained in the Executive Budget indicates that the State economy peaked in August 2008, eight months after the national economy; this was due

mainly to a lag in the State's housing market downturn. In addition, the weak dollar helped to support the State's relatively large retail sector.

Table 33

EXECUTIVE COMPARED TO MAJOR FORECASTERS			
(Percent Change)			
	Estimate 2008	Forecast 2009	Forecast 2010
U.S. Real GDP			
Division of the Budget	1.3	(0.9)	1.9
Blue Chip Consensus	1.3	(1.1)	N/A
Moody's Economy.com	1.2	(1.5)	2.1
Global Insight	1.2	(1.8)	2.1
Macroeconomic Advisers	1.2	(1.6)	N/A
U.S. Nonfarm Employment			
Division of the Budget	(0.2)	(1.2)	1.3
Moody's Economy.com	(0.2)	(2.2)	0.4
Global Insight	(0.2)	(1.9)	0.1
Macroeconomic Advisers	(1.3)	(1.6)	N/A
S&P 500			
Division of the Budget	(18.2)	(21.3)	10.5
Moody's Economy.com	(18.3)	(12.4)	30.8
Global Insight	(17.6)	(19.5)	14.8
New York State Employment			
Division of the Budget	0.3	(1.5)	0.1
Moody's Economy.com	0.2	(1.6)	0.1
New York State Wages			
Division of the Budget	1.2	(3.0)	2.4
Moody's Economy.com	3.5	(1.0)	1.9

Note: Division of Budget numbers are as reported in the Executive Budget 2009-10 as released on December 16, 2008. Values for other forecasting houses have been supplemented using the sources listed below. The different forecasts also may reflect different assumptions about the size and timing of a federal stimulus package.

Sources: Division of the Budget, Executive Budget 2009-10, December 16, 2008; Blue Chip Economic Indicators, December 2008; Moody's Economy.com, Precip U.S. Macro and NYS Regional Forecast, December 2008, <<http://www.economy.com>>; Macroeconomic Advisers December 2008 Base Forecast; Global Insight, U.S. Executive Summary, December 2008, <<http://www.globalinsight.com>>.

Employment

According to the Executive, State employment growth is estimated to be 0.3 percent in 2008; 0.5 percentage point higher than U.S. employment growth.

However, in 2009 the Executive forecasts that New York State employment will fall 1.5 percent; 0.3 percentage point more of a decline than the Executive forecast for U.S. employment (see Figure 18). In 2010, the Executive forecasts total New

York State employment will grow 0.1 percent, compared to growth of 1.3 percent in the nation.

Wages

The Executive forecasts that New York State wages will decline 3.0 percent in 2009, while national wages will grow 1.3 percent. The decline in State wages for 2009 will be heavily influenced by the 26.8 percent decline in 2009 total bonus wages. Finance and insurance sector bonuses will decline over 50 percent in the first quarter of 2009, as a result of debt write-downs, declining profits, and workforce reductions. New York State wages are forecast to grow 2.4 percent in 2010.

forecasted by the Executive to have fallen 40.9 percent to \$65.9 billion in 2008 and to decline another 25.8 percent to \$48.9 billion in 2009.

Risks

The Executive acknowledges significant risk to the forecasts presented in the budget. The uncertainty surrounding the current environment, particularly around volatile components such as capital gains and bonuses presents particular risk for the New York State outlook.

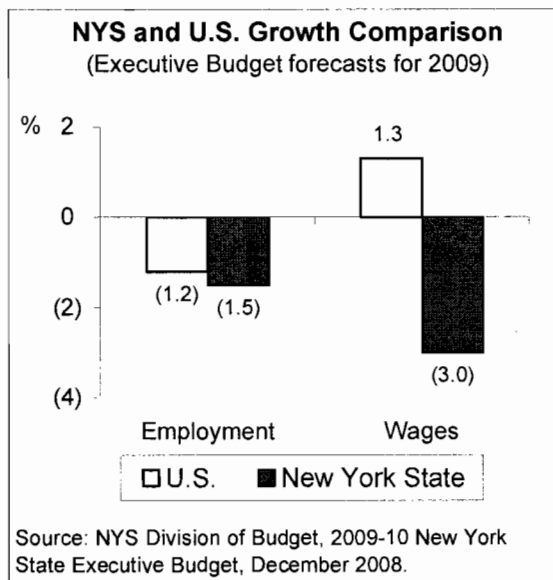


Figure 18

Capital Gains

The Executive estimates that capital gains for New York State grew by 32.0 percent to \$111.4 billion in 2007. Declines are expected in capital gains realization for 2008 and 2009. Capital gains are