



# Revenue and Economic Forecast Update

## Fiscal 2023 November Plan



FINANCE DIVISION  
NEW YORK CITY COUNCIL

### Revenue and Economics Unit

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# Overview

Inflationary headwinds will constrain the City's Budget. Council Finance forecasts a mild recession followed by a weak recovery. The Council Finance tax forecast is well above that of OMB. However, inflation eats into the purchasing power of the City's taxes.

Figure 1: City Budget & Economics

## FY23 Budget

\$104 Billion

\$2.9 Billion over FY23 Adopted Budget

## FY23 Tax Revenues (OMB)

\$67.7 Billion

Unchanged since Adoption

## Inflation (CPI-NYC MSA)

2022: 6.1% yr/yr

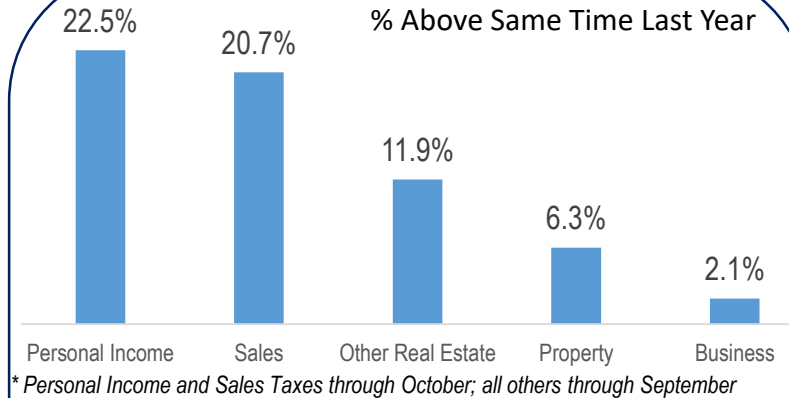
IHS Markit forecast (Nov. 2022)

## Private Employment

2022: +268,300 jobs

NYC Council Finance Division forecast

Figure 2: FY23 Year-to-Date Tax Collections



YTD collections for FY23 are \$2.8 billion higher than the same period last year, and \$1.6 billion over OMB's Plan at Adoption.

The strength of the current year's collections are attributable to higher-than-expected PIT withholdings and settlements, strong consumer spending driving the Sales Tax, and an influx in real estate activity boosting the Real Estate Transaction Taxes.

Figure 3: Current Economic Conditions

## National Economy

Real GDP increased by a healthy 2.9% in 3Q 2022 annual rate – following declines of 1.6% and 0.6% in 1Q and 2Q respectively.

Consumer spending maintained momentum, expanding by 1.7% in 3Q 2022.

Consumer Price Index has fallen to 7.7% growth yr/yr in October - down from 8.2% in September, and 9.1% at its June peak.

The unemployment rate was 3.7% in November – the same as in October – close to September's record low of 3.5%.

Nonfarm payroll employment expanded by 263,000 in November, less than the 392,000 monthly average in 2022, but above the 164,000 average in 2019.

## City Economy

Employment shrunk by 2,500 positions in October, after adding 23,000 private sector jobs on average over the prior 12 months.

Total jobs still 3.2% below the pre-COVID level (sea adj). Low-wage paying jobs still significantly below their pre-pandemic levels.

After falling to 5.6% in September, the unemployment rate inched up to 5.9% in October.

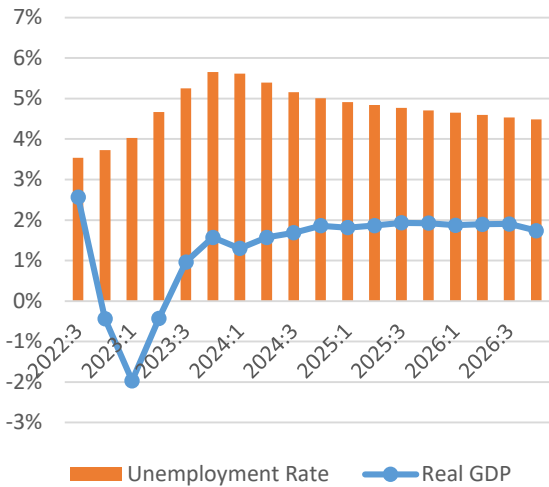
The labor force participation rate has recovered to 60.6% as of Oct. 2022. But the size of the labor force remains 7.3% less than its pre-pandemic level.

Inflation in NYC-Metro Area fell for a second successive month to 6% (yr/yr) in October.

# Economic Forecast

Local and national economic projections set the base for the Council’s tax forecast. As presented in the following figures, the Council anticipates a mild recession followed by a weak recovery. Coupled with the current high-inflation environment, the City’s budget continues to face economic pressure across the Financial Plan period.

Figure 4: National Unemployment & GDP Rates



Major economic indicators such as GDP and employment, are portraying a U.S. economy growing more slowly.

The Federal Reserve's regimen of large interest rate hikes is slowly impacting business investment, output and eventually employment and consumption.

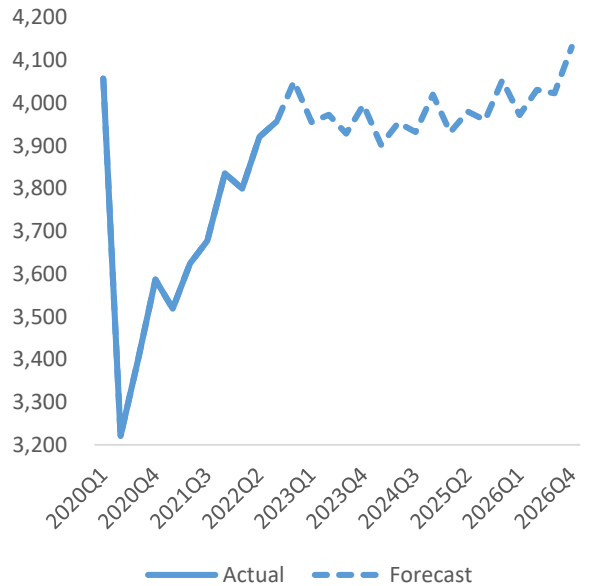
IHS Markit forecasts GDP growth to turn negative in the 4Q 2022 and continue to contract through the 2Q 2023.

The unemployment rate will climb from 3.7% in 4Q 2022 to a peak of 5.7% by 4Q 2023.

GDP growth will return to 2.0% by 4Q 2026.

Unemployment will only recover to 4.5% by 4Q 2026.

Figure 5: NYC Private Sector Employment (In Thousands)



Private sector employment in NYC has generally remained strong and is projected to grow by 7.3% in 2022.

Beyond this year, the labor market is expected to weaken, with employment having fallen by 1.4% in the 4Q 2023 compared to 4Q 2022.

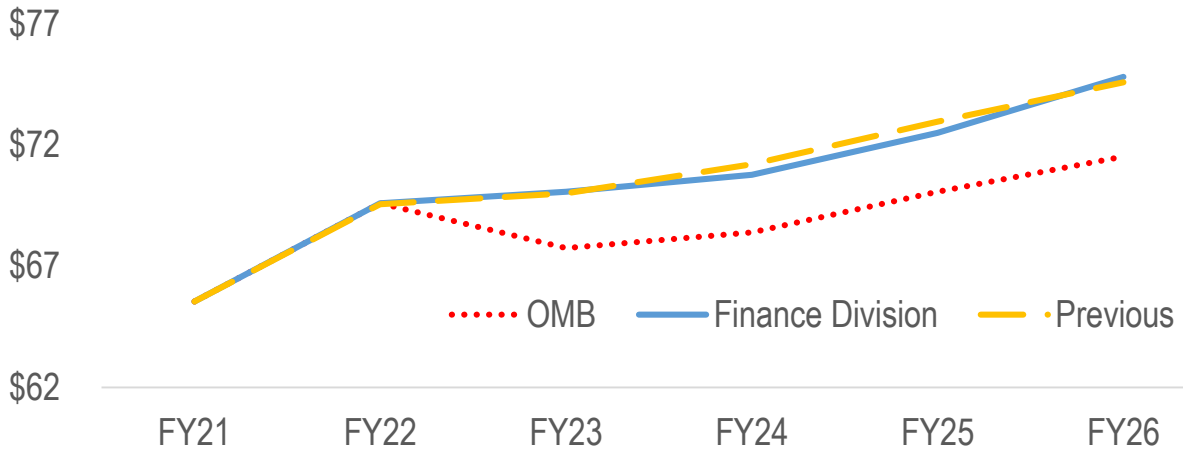
Employment is forecasted to contract in 1Q 2023 through 1Q 2024. The City will shed about 64,000 jobs (peak to trough) – mild compared to previous recessions.

Job growth will resume in 2Q 2024 through the end of 2026.

# Tax Revenue Projections

As shown in Figures 6-10, the Council's current forecast continues to exceed OMB's forecast, however not to a degree substantial enough to account for the current inflationary projections.

Figure 6: Tax Revenue Forecast (*Dollars in Billions*)

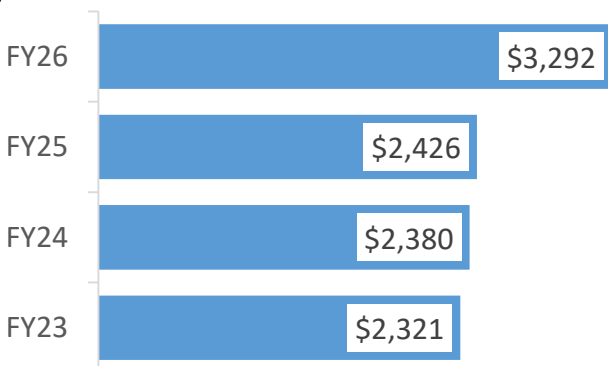


Following the previous fiscal year's 6.2% growth in tax revenue, the Finance Division expects FY23 tax revenue growth to moderate to 0.7%. The slight uptick is mainly attributable to expected increases in property, sales, hotel and other minor taxes. Sizeable declines in the income-driven and property transaction taxes will offset most of the projected increases.

Total collections will grow by a percent in FY24, reflecting projected increase in revenues from the property and hotel taxes. In contrast, the transaction taxes will see sharp declines, while the sales and income taxes experience marginal reductions in collections.

Growth in tax revenues will accelerate to an average of 2.8% in FY25 and FY26.

Figure 7: Current Council tax forecast compared with OMB's November Plan (*Dollars in Millions*)

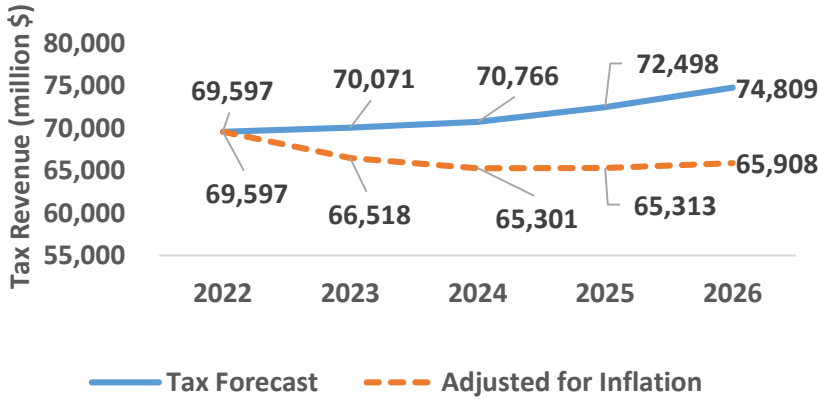


The Finance Division's FY23 tax forecast exceeds OMB's by about \$2.3 billion, reflecting substantial differences in sales, property and property transaction taxes.

The Finance Division projects stronger consumer spending compared to OMB. It also anticipates more moderate uncollectable property taxes and a gradual pace of decline in the transaction compared to OMB.

Figure 8: Council's Inflation Adjusted Tax Forecast

Tax Revenue Growth Turns Negative When Adjusted for Inflation



- While tax revenues will grow slowly during the forecast period, inflationary pressures will reduce their purchasing power.
- In FY24, revenues will be 6.2% lower than in FY22, in FY22 dollars.

Figure 9: Council's Tax Forecast Levels (Dollars in Millions)

Type of Tax	FY23	FY24	FY25	FY26
Real Property	\$31,695	\$32,857	\$33,873	\$34,616
Personal Income	15,366	15,314	15,542	15,875
Business Corporate	4,648	4,584	4,584	4,592
Unincorporated	2,331	2,317	2,342	2,354
Sales	9,357	9,298	9,537	9,920
Commercial Rent	902	917	947	998
Real Property Transfer	1,615	1,521	1,644	2,201
Mortgage Recording	1,273	1,142	1,177	1,324
Utility	402	382	382	385
Hotels	597	652	691	765
All Others	1,085	982	979	977
Audits	800	800	800	800
<b>Total Taxes</b>	<b>\$70,071</b>	<b>\$70,766</b>	<b>\$72,498</b>	<b>\$74,809</b>

Figure 10: Risks to Council's Tax Forecast Levels

In these times of elevated uncertainties, several risks to the above forecast appear the most salient.

- ↓ **Inflation and Slow Economic Growth**
- ↓ **Ukraine Russia Conflict**
- ↓ **Fed Rate Hikes Impacting Financial Markets**
- ↓ **China's Zero-COVID Policy**
- ↓ **Pace of Return to Manhattan Offices**
- ↑ **Strong Consumer Sentiment**

