

# **MIDYEAR UPDATE**

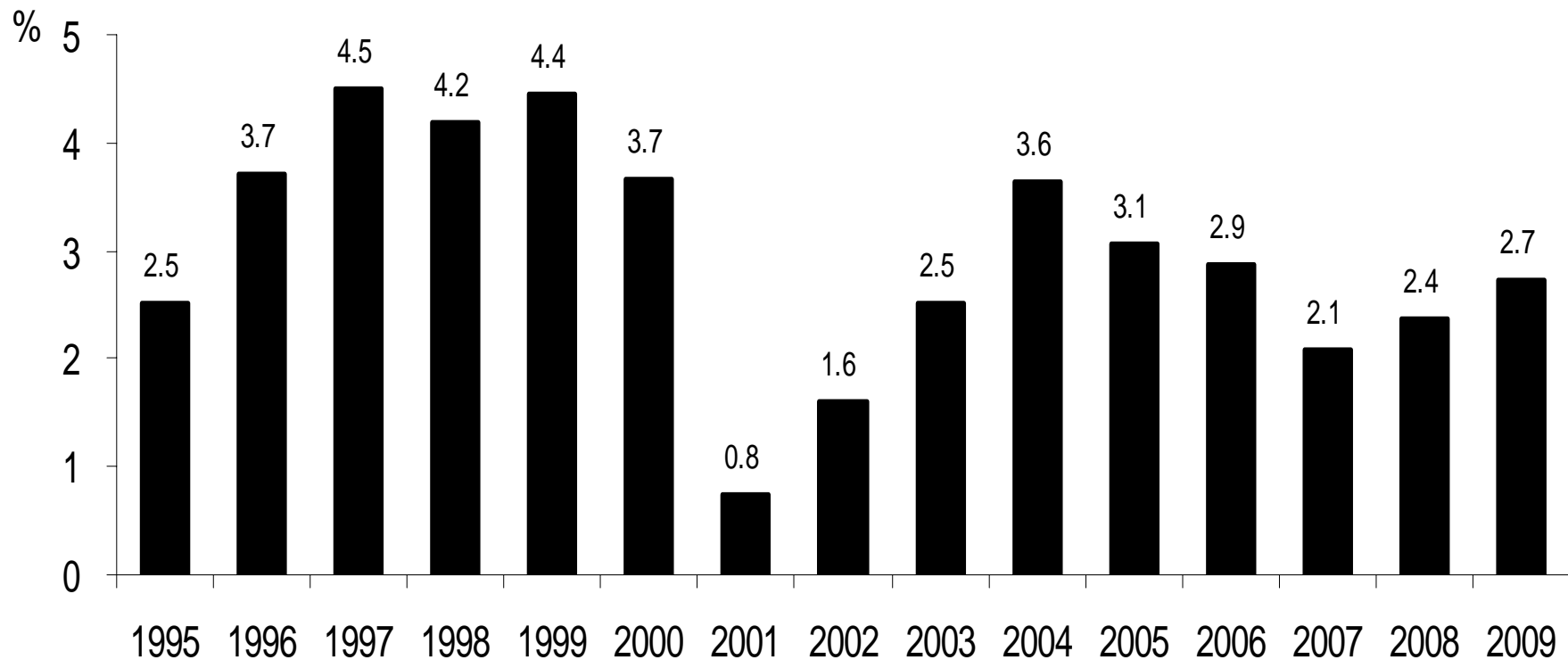
SFY 2007-08 and SFY 2008-09

New York State Assembly

November 13, 2007

# National economic growth is slowing ...

## U.S. Real GDP Growth



Note: Data for 2007 is estimated; 2008 and 2009 are forecasts.

Sources: Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

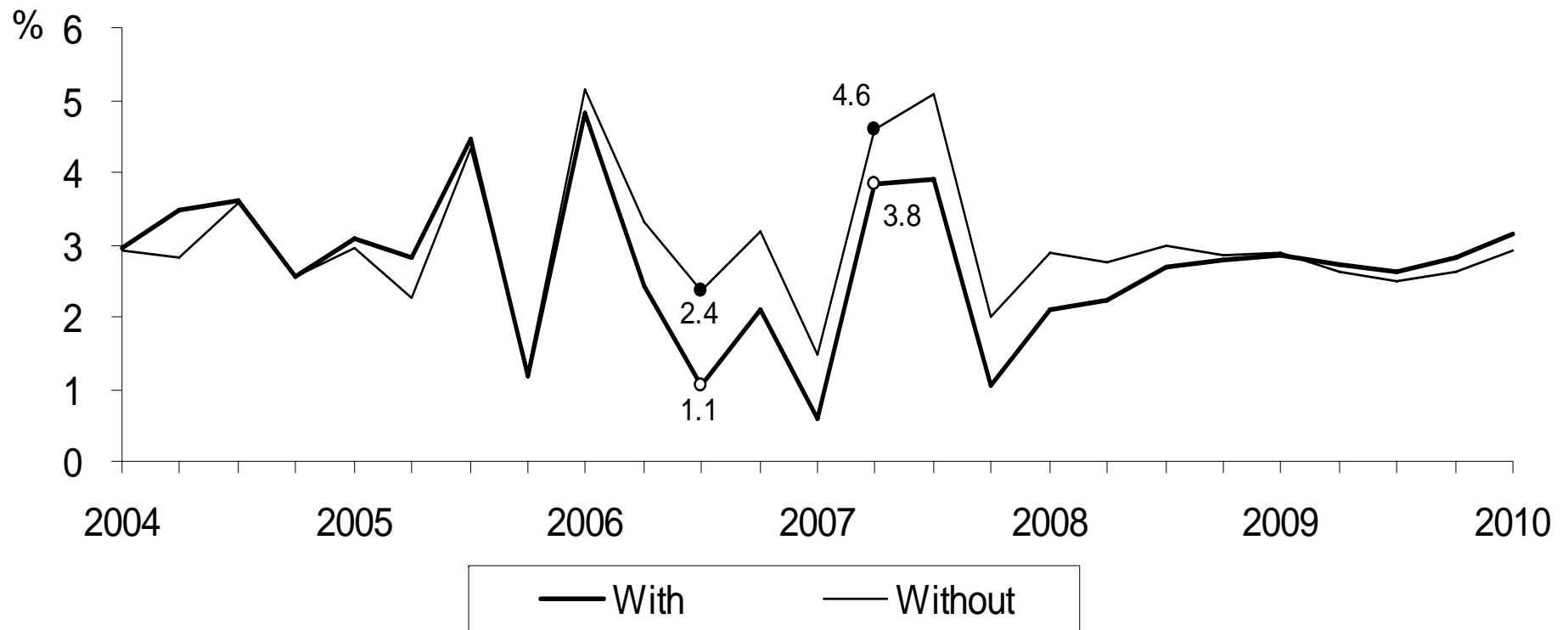
## U.S. Real GDP Forecast Comparison (Percent Change)

	<b>Actual 2006</b>	<b>Estimate 2007</b>	<b>Forecast 2008</b>	<b>Forecast 2009</b>
Ways and Means	2.9	2.1	2.4	2.7
Blue Chip Consensus	2.9	2.0	2.4	N/A
Division of the Budget	2.9	2.0	2.5	2.8
Moody's Economy.com	2.9	2.0	2.3	3.2
Macroeconomic Advisers	2.9	2.0	2.5	2.7
Global Insight	2.9	2.0	2.0	2.9

*Sources: NYS Assembly Ways and Means Committee staff; Blue Chip, October 2007; NYS Division of the Budget, Mid-Year Financial Plan Update, 2007-08 through 2010-11, October 30, 2007; Moody's Economy.com, October 2007; Global Insight, October 2007; Macroeconomic Advisers, October 2007.*

# ... and it's mostly a story of housing.

## U.S. Real GDP Growth With and Without Residential Construction Activity



Note: Data is quarterly through 2010:Q1; the first forecast period is 2007:Q3.

Sources: Bureau of Economic Analysis; NYS Ways and Means Committee staff.

# Home builders are extremely pessimistic ...

**NAHB Housing Market Index  
1985:Q1 to 2007:Q3**

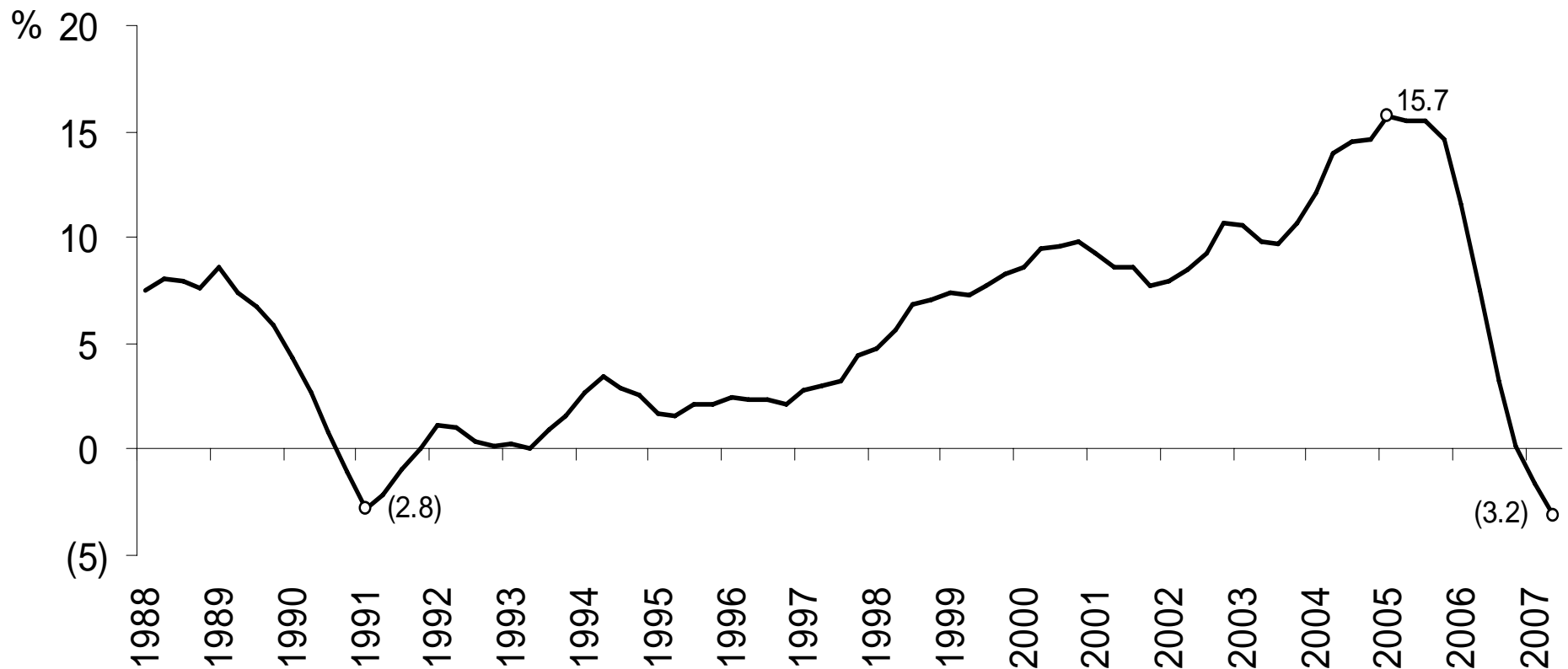


Note: Data is quarterly through 2007:Q3.

Source: National Association of Home Builders.

# ...and home prices are falling.

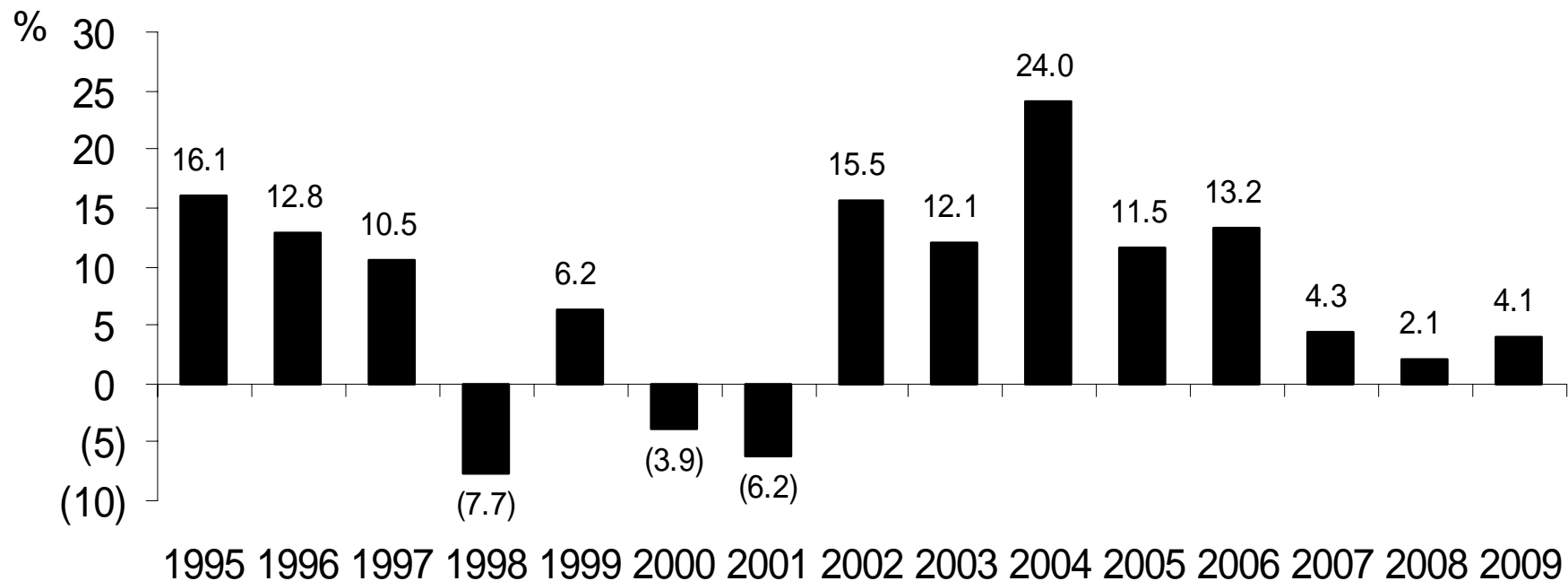
**S&P/Case-Shiller U.S. National Home Price Index  
Percent Change over Previous Year**



Source: Standard & Poor's - S&P/Case-Shiller® Home Price Indices.

# With overall economic growth expected to slow, so is corporate profit growth.

## U.S. Corporate Profits Growth (Economic Basis)

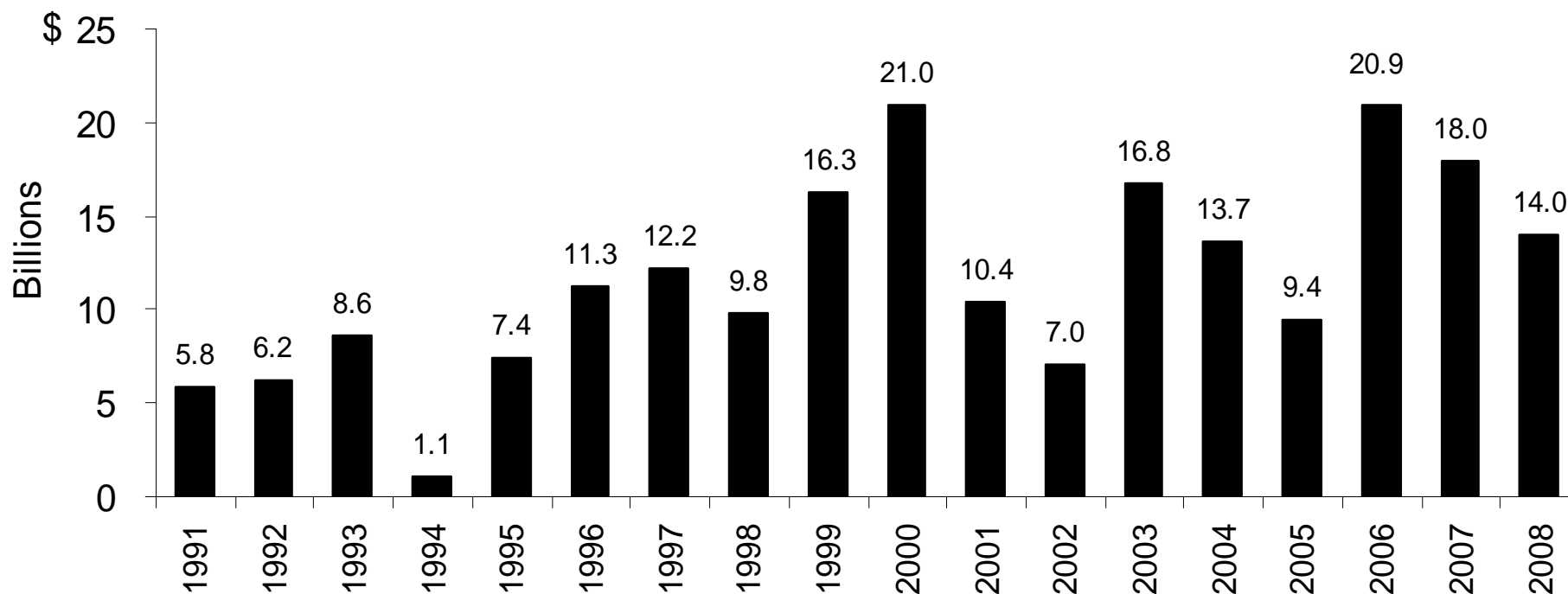


Note: Data for 2007 is estimated; 2008 and 2009 are forecasts.

Sources: Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

# Securities industry performance is also expected to weaken. Lower profits are likely and...

## Securities Industry Profits



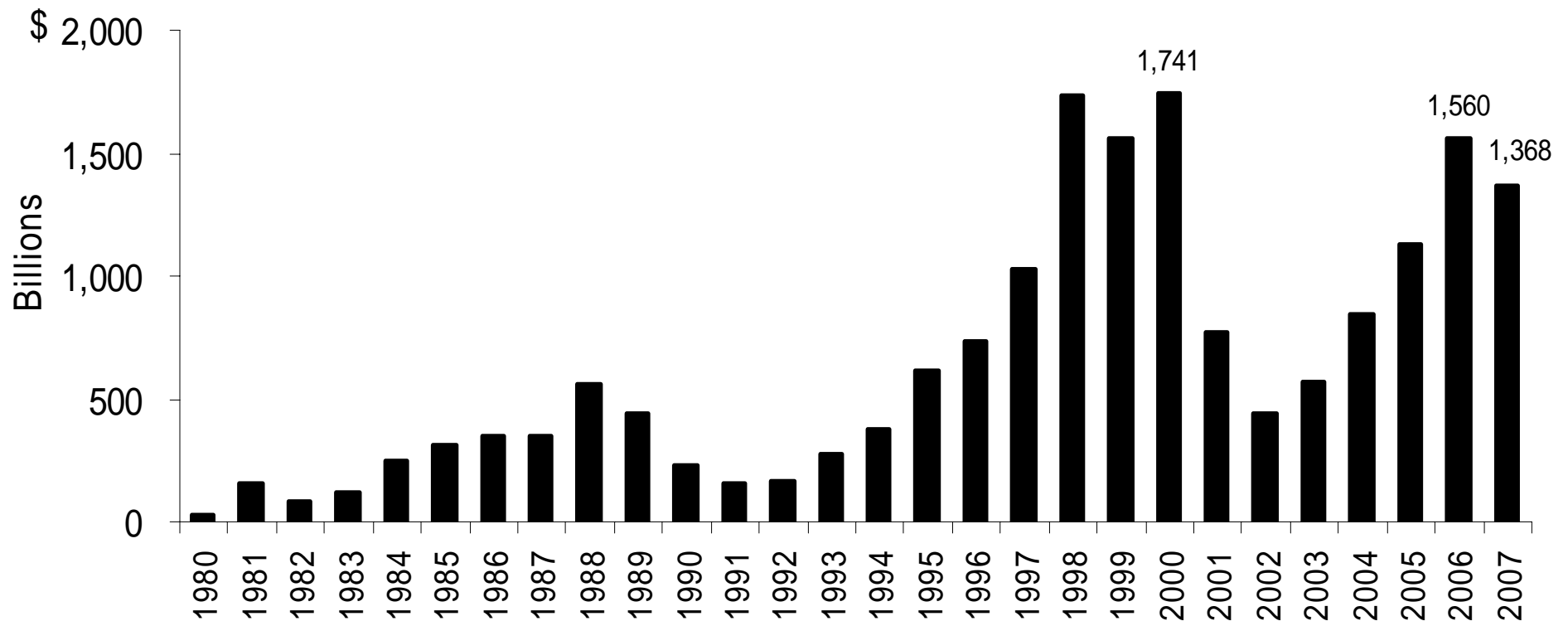
Note: Industry profits are before tax and based on NYSE-member firms only. Data for 2007 and 2008 are estimates.

Sources: *Securities Industry and Financial Markets Association; NYS Assembly Ways and means Committee staff.*



# ... Tightened and uncertain credit conditions will potentially rein in M&A activity.

## U.S. Mergers and Acquisitions Announced Deals

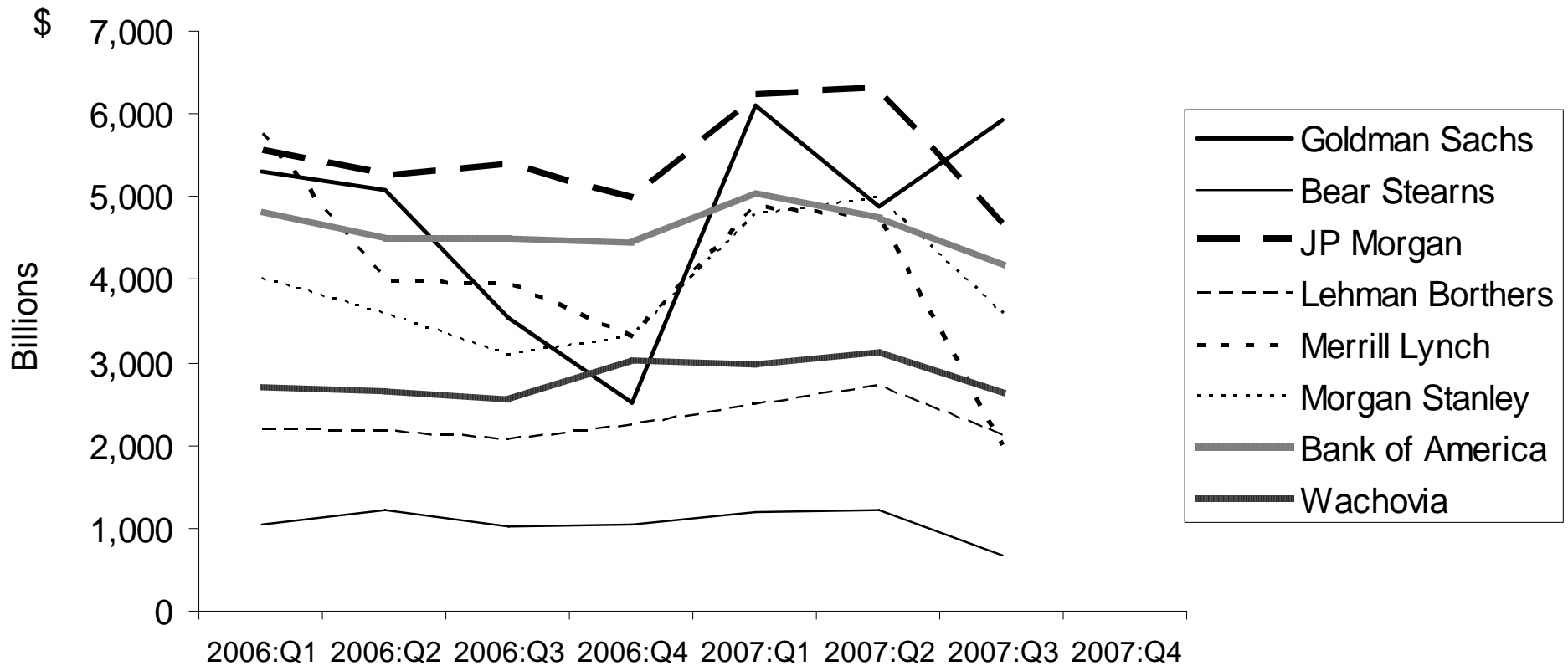


Note: Data for 2007 is for the first three quarters only.

Source: Thomson Financial.

# Employee compensation down at some of major Wall Street firms in Q3. As a result...

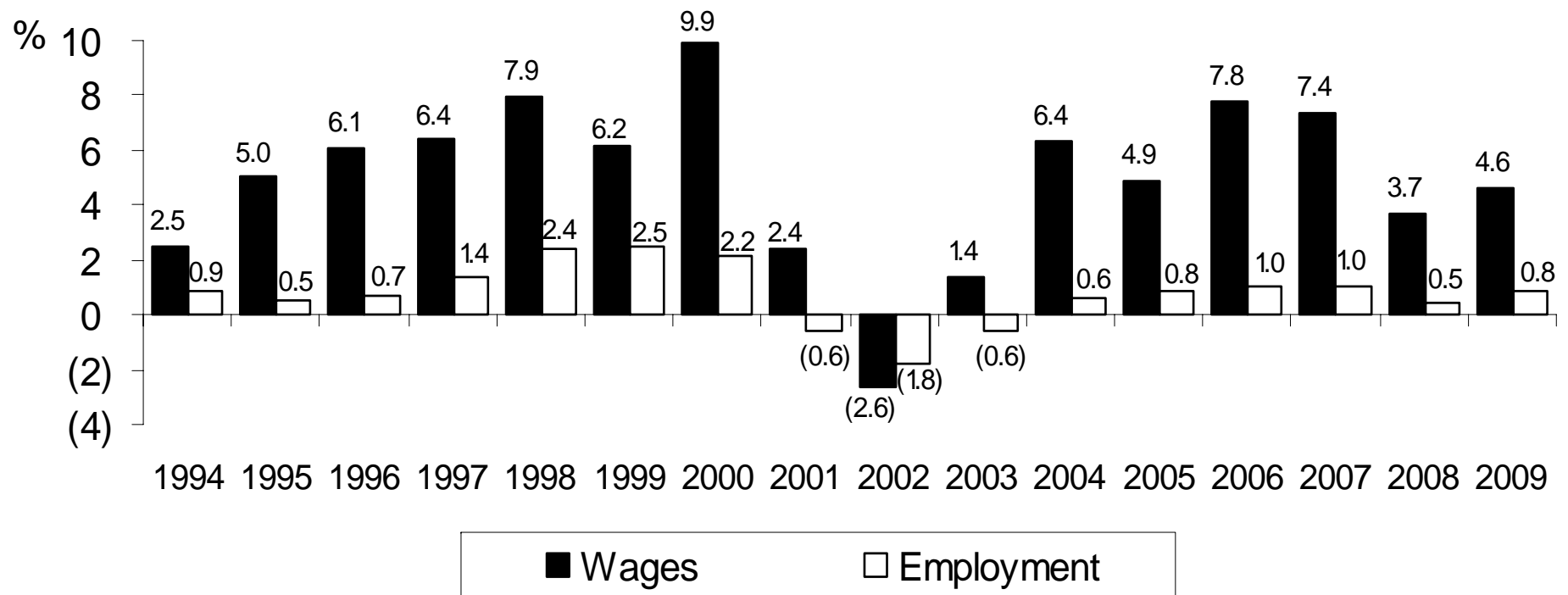
## Compensation by Firm



Sources: Firm quarterly earnings reports.

# ...State wage growth is expected to slow in 2008. So are employment growth and...

## NYS Wage and Employment Growth

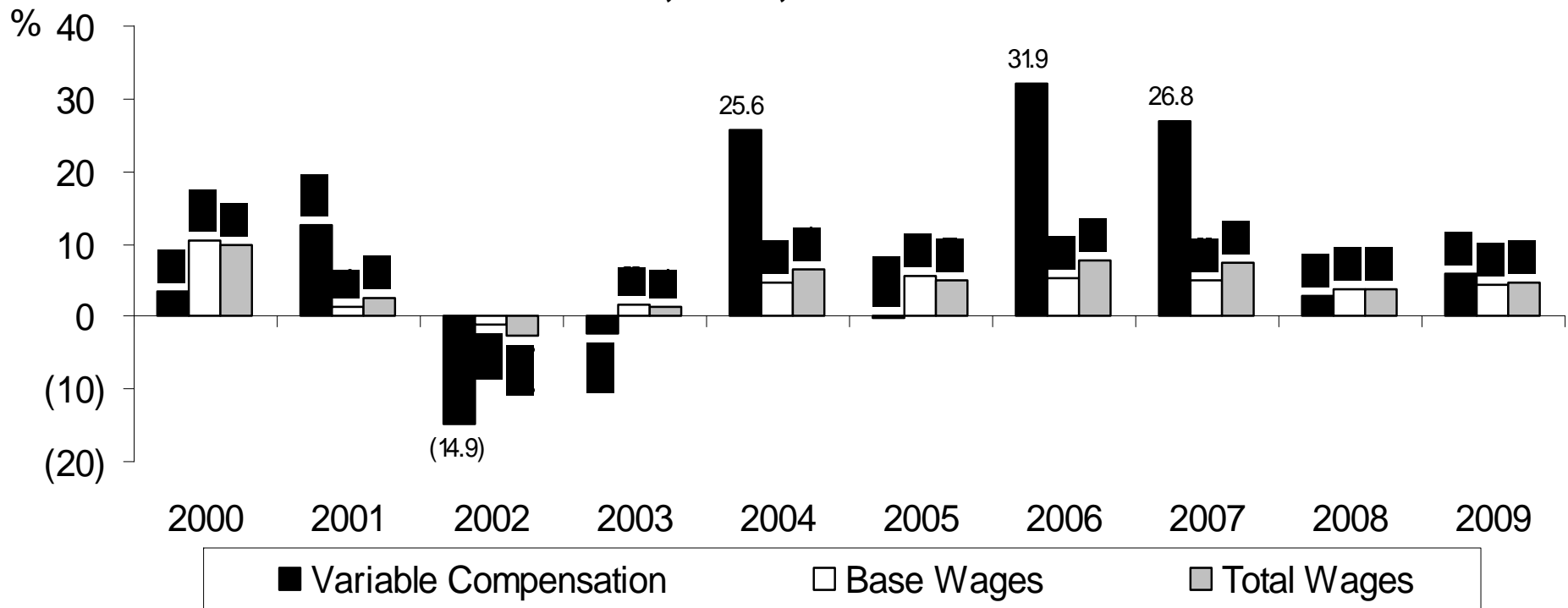


Note: Data for 2007 is estimated; 2008 and 2009 are forecasts.

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

# ...Growth in bonuses and other variable compensation.

**New York State Wage Growth  
Total, Base, and Variable**



Note: Total wage data for 2007 is estimated; 2008 and 2009 are forecasts. Base wages and variable compensation are estimated by the Committee staff and sum to total wages.

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

## NYS Forecast Comparison (Percent Change)

	Actual 2006	Estimate 2007	Forecast 2008	Forecast 2009
<b>Employment</b>				
Ways and Means	1.0	1.0	0.5	0.8
Division of the Budget	0.9	0.9	0.7	0.7
Global Insight	1.0	0.9	0.8	0.9
Moody's Economy.com	1.0	0.9	0.3	0.5
<b>Wages</b>				
Ways and Means	7.8	7.4	3.7	4.6
Division of the Budget	7.3	7.1	4.0	4.8
Global Insight	7.6	9.8	4.7	4.8
Moody's Economy.com	7.6	9.6	2.4	3.3

*Sources: NYS Assembly Ways and Means Committee staff; NYS Division of Budget, Mid-Year Financial Plan Update, 2007-08 through 2010-11, October 30, 2007; Moody's Economy.com, October 2007; Global Insight, October 2007.*

# **SFY 2007-08 Revenue Estimate**

In SFY 2007-08, State tax revenues will total \$61.2 billion.

- This represents growth of \$2.4 billion or 4.1 percent.
- This estimate is \$27 million below the Executive's midyear estimate.

# SFY 2008-09 Revenue Forecast

- State tax revenues are forecasted to total \$64.1 billion, which represents growth of 4.8 percent.
- The Committee forecast is \$363 million below the Executive forecast.
- A continued slowdown in economic activity is expected to have a dampening effect on most of the major taxes.

# Major Forecast Differences

## *Personal Income Tax: (-\$511 million)*

- Lower withholding estimates, reflecting different forecasts for wages in SFY 2008-09, account for the bulk of the difference.

## *Remaining Taxes: (+\$148 million)*

- Higher estimates for sales taxes account for a large portion (+\$91 million) of the difference.



# Medicaid Spending

- The Assembly estimates that the Department of Health will spend \$12.278 billion in State Funds for the Medicaid program in SFY 2007-08, \$64 million lower than the Division of the Budget Mid-Year Forecast.
- The Assembly estimates that the Department of Health will spend \$12.918 billion in State Funds for the Medicaid program in SFY 2008-09, \$80 million lower than the Division of the Budget Mid-Year Forecast .

# Public Assistance

- SFY 2007-08 public assistance expenditures will total \$2.006 billion, \$29 million lower than the Executive.
- Underlying caseload estimate is 523,570 recipients for SFY 2007-08, a decline of 37,291 recipients from SFY 2006-07 and 4,277 recipients lower than the Executive.
- SFY 2008-09 public assistance expenditures will total \$1.925 billion, \$97 million lower than the Executive.
- Underlying caseload forecast is 508,180 recipients for SFY 2008-09, 14,026 recipients lower than the Executive.

# Aid to Education

- Funding for Foundation Aid totaled \$13.64 billion in SY 2007-08 and is projected to grow by \$1.25 billion in SY 2008-09.
- Expense-Based Aids categories including Building, Transportation, BOCES, and Private Excess Cost Aid are projected to grow by a total amount of \$299 million in SY 2008-09.
- The Assembly recommends that funding for Universal Prekindergarten is increased by an additional \$105 million in SY 2008-09.