

ECONOMY

The National Economy

According to the Executive, the national economy will not enter a recession, but will grow at 2.2 percent in 2008. However, the Executive's outlook indicates that the economy is losing momentum. Several factors will contribute to slower growth including past energy price increases, decelerating labor market growth, credit tightening, and uncertainty associated with the current economic climate.

Real Gross Domestic Product (GDP) is expected by the Executive to grow 2.2 percent in 2008, the same rate as in 2007 (Table 22). The Executive's 2008 real GDP forecast is the same as Blue Chip and Economy.com, 0.3 percentage point lower than Macroeconomic Advisors, and 0.3 percentage point higher than Global Insight. In 2009, the Executive expects that real GDP growth will return to near trend growth of 2.9 percent.

The Executive expects high energy prices, a slowing labor market, and falling house prices to lead to a deceleration of consumption growth to 1.9 percent in 2008, following an estimated growth of 2.8 percent in 2007. Nonresidential fixed investment is expected to accelerate to 6.5 percent growth in 2008 from the 4.8 percent growth estimated for 2007. Residential fixed investment is expected to decline sharply again in 2008 by 14.6 percent, after declining 16.6 percent in 2007. In 2009, residential fixed investment is expected to remain flat.

Employment is expected to grow 1.0 percent in 2008, following growth of 1.3 percent in 2007 (Table 22). The unemployment rate will increase to 5.0 percent in 2008, up from 4.6 percent in 2007. According to the Executive many employment indicators signal a slowdown, but are conflicting as to the extent.

Stock prices, as measured by the S&P 500 Stock Price Index, are expected by the Executive to increase 5.7 percent in 2008 (Table 22). The Executive expects the stock market to remain on an upward path, however at a slower rate than in recent years due to more modest growth in corporate profits.

The Executive acknowledges that there are important risks to the economic outlook. Central among these risks is the possibility of a more severe credit crunch than anticipated. In addition, a deeper contraction in the housing market than assumed in the outlook represents a significant downside risk. Upside risks include lower energy prices or stronger global growth.

The New York State Economy

According to the Executive, the New York State economy is significantly impacted by the national economic slowdown. Central to the Executive's New York State forecast is the assumption of declining bonus pay-outs in the securities industry.

Table 22

EXECUTIVE COMPARED TO MAJOR FORECASTERS			
(Percent Change)			
	Estimate	Forecast	Forecast
	2007	2008	2009
U.S. Real GDP			
Division of the Budget	2.2	2.2	2.9
Blue Chip Consensus	N/A	2.2	2.7
Moody's Economy.com	2.3	2.2	N/A
Global Insight	2.2	1.9	2.7
Macroeconomic Advisers	2.2	2.5	2.9
U.S. Nonfarm Employment			
Division of the Budget	1.3	1.0	1.2
Moody's Economy.com	1.3	0.8	1.1
Global Insight	1.3	0.8	1.1
Macroeconomic Advisers	1.1	0.8	1.3
S&P 500			
Division of the Budget	12.8	5.7	7.5
Moody's Economy.com	13.3	4.4	5.2
Global Insight	12.7	1.2	6.4
New York State Employment			
Division of the Budget	1.1	0.6	0.6
Moody's Economy.com	1.0	0.3	0.5
New York State Wages			
Division of the Budget	7.6	3.3	4.6
Moody's Economy.com	9.1	1.8	3.7
Note: Gross Domestic Product numbers are as reported in the Executive Budget 2008-09. Values for other forecasting houses for U.S. Nonfarm Employment, S&P 500, New York State Employment, and New York State Wages that are not reported in the Executive Budget have been supplemented using the sources listed.			
Sources: <i>Division of the Budget, Executive Budget 2008-09, January 2008</i> ; <i>Blue Chip Economic Indicators, January 2008</i> ; <i>Moody's Economy.com, Precis U.S. Macro and NYS Regional Forecast, January 2008</i> , < http://www.economy.com >; <i>Macroeconomic Advisers December 2007 Base Forecast</i> ; <i>Global Insight, U.S. Executive Summary, January 2008</i> , < http://www.globalinsight.com >.			

Total employment for the State is estimated to have increased 1.1 percent in 2007, slightly slower than the national growth of 1.3 percent. Employment growth is expected to decelerate to 0.6 percent in 2008 and 2009 (Table 22).

New York wages are expected to grow only 3.3 percent in 2008 following estimated growth of 7.6 percent in 2007.

The slowdown in growth will be due to lower variable compensation, particularly in the finance industry. Bonus wages are forecast to decline 0.8 percent in 2008, then increase 7.7 percent in 2009.

In 2007, estimated employment growth was slower than the nation, while estimated wage growth was higher than the nation (Figure 27). However, the

Executive forecasts that New York State wages will grow slower than national wages in 2008.

the New York State forecast. The possibility of higher losses on Wall Street remains a particularly large threat to the New York State economy.

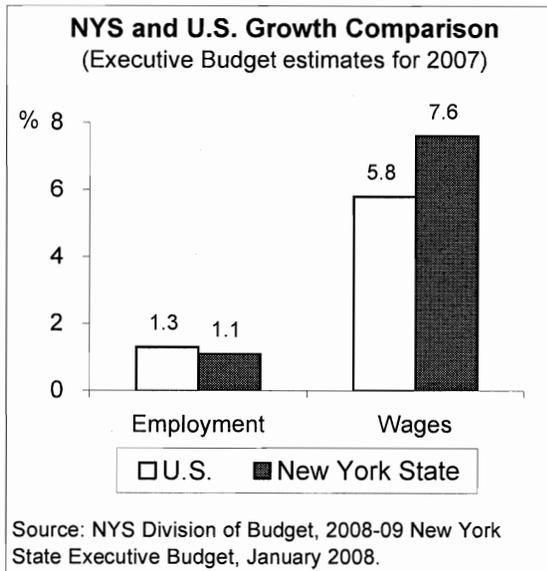


Figure 27

The unemployment rate in 2008 is expected to average 4.9 percent for the State, 0.1 percentage point below the national average for the same period. In 2009, the unemployment rate for the State is expected to average 5.0 percent, the same as the national rate.

The Executive estimates that capital gains for New York State grew by 24.8 percent to \$83.2 billion in 2006 due to solid gains in the financial and housing markets. Slower growth is expected in capital gains realization for 2007 through 2009, as overall economic growth slows and the turmoil continues in the housing market. Capital gains are forecasted by the Executive to have grown 13.8 percent to \$94.7 billion in 2007 and to grow 1.8 percent to \$96.4 billion in 2008.

The risks to the United States forecast identified by the Executive also apply to