ECONOMY

The National Economy

The Executive sees the national economy continuing to expand over the next few years, but at a decreasing rate. The Executive believes that growth in 2007 and 2008 will dampen primarily due to the effects of the Federal Reserve's past interest rate hikes, a correction in the nation's housing market, and an inventory correction particularly in the domestic auto industry.

Real Gross Domestic Product (GDP) is expected by the Executive to grow 2.3 percent in 2007, after growing an estimated 3.3 percent in 2006 (Table 21). The Executive's 2007 real GDP forecast is 0.1 percentage point below the Blue Chip Consensus, 0.3 percentage point below Moody's Economy.com and Macroeconomic Advisors, and the same as Global Insight. In 2008, the Executive expects real GDP growth to return to trend growth of 3.0 percent. This forecast is the same as the Blue Chip Consensus and 0.2 percentage point lower than Global Insight and Macroeconomic Advisers.

The Executive expects declining cash availability from the refinancing of housing assets and declining purchases of home furnishings and appliances to lead to a deceleration of consumption growth to 2.9 percent in 2007, following an estimated growth of 3.1 percent in 2006. Nonresidential fixed investment is expected to slow slightly to 7.1 percent growth in 2007 from the 7.8 percent growth estimated for 2006. Residential investment is expected to decline sharply in 2007 by 11.5 percent, compared to the estimated 3.8 percent decline in 2006. In 2008, residential investment is expected to decline further by 2.2 percent.

National employment is expected to grow 1.1 percent in 2007 following growth of 1.4 percent in 2006 (Table 21). The unemployment rate will increase to 4.9 percent in 2007 from 4.7 percent in 2006. As the Executive's figures indicate, much of the decrease in the unemployment rate in recent years can be attributed to a decline in the labor force participation rate rather than rapidly rising employment.

The Executive expects oil prices in 2007 to rise from their current levels. However, the Executive does not expect oil prices to reach the highs of summer 2006.

The Executive expects the Federal Reserve to hold the federal funds target rate at 5.25 percent throughout 2007.

Due mainly to restructuring in the auto industry, the Executive expects an inventory correction in the manufacturing sector to continue into 2008. The sustained increase in heath care costs, higher interest rates and energy prices, combined with consumers switching to foreign cars have placed additional pressure on domestic automakers. As a result, the Executive posits that domestic auto and other types of production will continue to decline.

The stock price, as measured by the S&P 500 Composite Price Index, is expected by the Executive to increase 8.9 percent in 2007 (Table 21). As of January 31, 2007, the S&P 500 opened at 1428.7, an increase of 8.2 percent over the average level in 2006. Therefore, for the Executive's stock market forecast to be accurate, price levels on average in 2007 must stay at their current levels.

Table 21

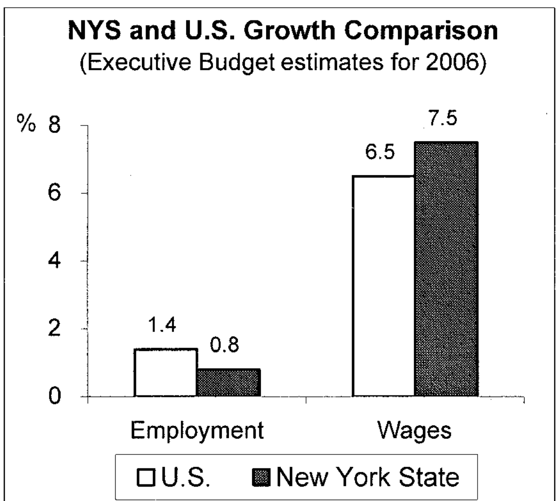
Executive Compared to Major Forecasters
(Percent Change)

	Estimate 2006	Forecast 2007	Forecast 2008
U.S. Real GDP			
Division of the Budget	3.3	2.3	3.0
Blue Chip Consensus	3.3	2.4	3.0
Moody's Economy.com	3.3	2.6	3.2
Global Insight	3.3	2.3	3.2
U.S. Nonfarm Employment			
Division of the Budget	1.4	1.1	1.3
Moody's Economy.com	1.4	1.0	1.1
Global Insight	1.4	1.0	1.3
S&P 500			
Division of the Budget	8.4	8.9	6.8
Moody's Economy.com	7.1	5.1	3.7
Global Insight	8.6	8.1	5.1
New York State Employment			
Division of the Budget	0.8	0.7	0.7
Moody's Economy.com	0.8	0.8	0.6
Global Insight	0.8	0.5	0.8
New York State Wages			
Division of the Budget	7.5	5.7	5.0
Moody's Economy.com	6.2	5.4	3.6
Global Insight	6.3	3.6	4.7

Sources: NYS Division of Budget, 2007-08 New York State Executive Budget, January 2007; Blue Chip Economic Indicators, January 2007; Moody's Economy.com, Precis U.S. Macro and NYS Regional Forecast, January 2007; Macroeconomic Advisers December 2006 Base Forecast; Global Insight, U.S. Executive Summary, January 2007.

The New York State Economy

According to the Executive, the New York State economy is in its fourth year of recovery from a recession that lasted 2.5 years, much longer than the length of the national recession. Total employment for the State is estimated to have increased 0.8 percent in 2006, or about half the growth rate of the nation. Employment growth is expected to decelerate slightly in 2007 and 2008 (Table 21). New York wages are expected to grow 5.7 percent in 2007 following estimated growth of 7.5 percent in 2006. The growth will be due to variable compensation, particularly in the financial industry. In 2006, estimated employment growth was slower than the nation, while estimated wage growth was slightly higher than the nation (Figure 28).



Source: NYS Division of Budget, 2007-08 New York State Executive Budget, January 2007.

Figure 28

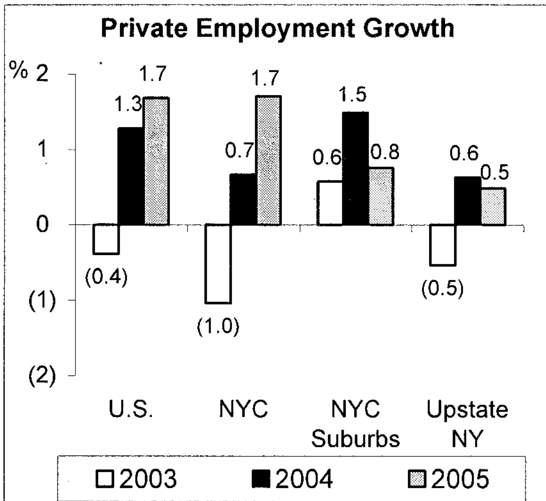
Unemployment in 2007 is expected to average 5.0 percent for the State, 0.1 percentage point above the national average for the same period. In 2008, unemployment for the State is expected to average 5.2 percent, 0.1 percentage points above the national rate. New York State's unemployment rate is expected by the Executive to slightly underperform relative to the nation at least until 2010.

The Executive expects State wages and salaries to grow 5.7 percent in 2007, 2.1 percentage points higher than the forecast from Global Insight and 0.3 percentage point higher than the forecast from Moody's Economy.com (Table 21). In 2008, wages and salaries are expected by the Executive to grow 5.0 percent, 0.3 percentage point and 1.4 percentage points higher than the forecasts from Global Insight and Moody's Economy.com, respectively.

The Executive estimated that capital gains for New York State grew by 10.5 percent to $73.4 billion in 2006. Capital gains are expected by the Executive to grow 6.2 percent to $77.9 billion in 2007 and 5.7 percent to $82.3 billion in 2008.

The State has a very high concentration of economic activity in the finance and insurance sector, particularly in the securities industry. The Executive expects variable wages (i.e. bonuses) for the finance and insurance sector to grow 16.7 percent during State Fiscal Year (SFY) 2006-07 and 9.1 percent in SFY 2007-08. The main factor that contributes to this growth is the relatively high profit activities of securities industry centered in New York City. The revenue of NYSE-member firms increased at an annualized rate of 38.1 percent in the first three quarters of 2006, primarily driven by mergers and acquisitions, IPO issuances, and strong demand for debt underwriting.

Except for New York City, private employment in all regions of New York State grew more slowly than the nation in 2005, with New York City growing faster than New York City suburbs and upstate New York. In 2003 and 2004, the New York City suburbs outperformed the nation, while New York City employment declined more than the national employment in 2003 (Figure 29).



Sources: U.S. Bureau of Labor Statistics; NYS Division of Budget, 2007-08 New York State Executive Budget, January 2007.

Figure 29