NEW YORK STATE

2015 ECONOMIC AND REVENUE
CONSENSUS FORECASTING CONFERENCE

State Capitol, Room 124
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3:30 p.m. to 5:30 p.m.

PANEL PRESENT:

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Budget Director
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Robert Ward
Deputy Comptroller
NYS Office of the Comptroller

Senator John DeFrancisco
Chairman
Senate Finance Committee

Senator Martin Malave Dilan
Member
Senate Finance Committee

David Valesky
IDC Deputy Conference Leader
Member of the Senate Finance Committee

Assemblyman Herman D. Farrell, Jr.
Chairman
Assembly Ways and Means Committee

Assemblyman Robert Oaks
Ranking Minority Member
Assembly Ways and Means Committee

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MARY BETH LABATE: All the players are here so why don't we get started.

I would like to welcome everyone to the annual Economic and Revenue Consensus Forecasting Conference.

My name is Mary Beth Labate. I'm the newly appointed director of the budget.

Joining me today on this forecasting panel are, from my right, Senator John DeFrancisco, Chair of the Senate Finance Committee;

To my left, Assemblyman Herman Farrell, Chairman of the Assembly Ways and Means Committee;

Senator Valesky, IDC Deputy Conference Leader, and member of the Senate Finance Committee;

Senator Martin Dilan, Senate Finance Committee;

Assemblyman Robert Oaks, Ranking Member of the Assembly Ways and Means Committee;

And, Robert Ward, deputy comptroller.

I'm please to be presiding over the panel for the first time.

Today's conference represents the first step in what we all hope will be a collaborative and collegial march towards a state budget that every New Yorker can be proud of.

Each member of this panel will have an talking about to provide brief operating remarks.

Afterwards, we'll hear testimony from a cross-section of experts who will offer their perspectives on the current economic and revenue situation.

Let's start with some good news.

As hard as it may be to believe, we're heading towards the beginning of the seventh year of this nation's recovery from the Great Recession, and there are good reasons to feel optimistic.

Energy prices are at their lowest point since early 2009, a windfall for all Americans on any range in the income spectrum.

The U.S. economy saw two quarters of growth above 4 percent in 2014.

Indeed, last year alone, the nation's private sector created 2.6 million jobs, the most since the height of the dot-com bubble of the late 1990s, and I'm happy to be able to say that we did it without the bubble.

All of us can be proud that, of the 9.4 million private-sector jobs created between 2010 and 2014, over half a million were created here in New York.

The national unemployment rate fell to 5.7 percent in January, the lowest since 2008, while the state unemployment rate is at its lowest level since September of 2008.

New York's recent job gains have been broad-based and no longer concentrated in the low-wage sectors that characterized the earlier stage of recovery.

The state is creating jobs in high-skill, high-wage areas, making New York well-positioned to compete with anyone anywhere in the global arena.

But all of these appealing statistics provide no excuse to rest on our laurels.

Not every New Yorker has been able to share in our relative prosperity. We also know that economies in New York State are highly regionalized, with many areas still working hard to recover the jobs that were lost during the recession.

We've come a long way, and there is more to be done.

So, while we've a lot to feel good about, we must remind ourselves that significant risks remain a fact that's even the weather won't let us forget.

It is looking like our frigid weather will be shaving a significant amount of growth of the economy's first-quarter performance.

I look to our panel of experts to offer some guidance on that score.

Weather aside, and despite a national labor market that is in its best position since the start of the recovery, the most recent data suggests a substantial deceleration from the middle of last year.

Bob Megna promised me that wouldn't happen when he convinced me to take this job, but it seems to be happening.

The global economy is weak, and it is unclear how encouraged we should be by a recent spate of green shoots, another area we look to our panel of experts to comment on.

I think we can all agree, we have been disappointed before. It is tempting to say that with the recent weakening of the euro, maybe this time is different, but the flip side of a weaker euro is a stronger dollar.

And, again, we look to the panel to provide us an assessment.

For New York, one of the greatest risks lies with the future action of the Federal Reserve.

I think all of our economic staffs agree that the Central Bank is likely to start raising interest rates before the year is out.

Again, we'll ask the panel for some guidance there.

I don't think anyone in this room needs to be reminded that, as the nation's financial capital, financial market volatility poses a particularly large degree of uncertainty for New York.

Recent events have demonstrated how sensitive markets can be to shifting expectations surrounding federal policy -- Federal Reserve policy, and the resulting market gyrations are likely to have a larger impact on the state economy than on the nation as a whole.

Which bring us to the topic of Wall Street.

Last year was not a good year for the financial sector.

Despite double-digit equity market growth and IPO growth of 60 percent, it appears that we are seeing the weakest bonus season in three years.

Although Wall Street has always been a source of high volatility, we've to recognize that Wall Street is playing under a new set of rules and may never again be the growth engine of state revenue it once was.

Wall Street firms have been altering their executive-compensation practices in response to regulations that are still being written under Dodd-Frank.

We've observed dramatic reductions in the cash portion of bonuses in favor of equity grants, with large portions of compensation being deferred and subject to clawback.

Moreover, deferral patterns have changed from year to year. These changes, while necessary, have challenged our forecasting models in ways that we are still trying to sort out.

Thanks to the greater diversification of the state economy, and I might add, prudent budgeting on all of our parts, we are weathering the weakness in bonus payments without too much difficulty.

That said, this is exactly the right forum for acknowledging the added uncertainty to our incoming revenue projections, and must -- and we must resolve to plan accordingly.

Nevertheless, again, there is much positive news.

The state labor market remains strong and well-balanced.

New York remains a tourist mecca, drawing visitors from all over the world to our state's unique urban and natural attractions.

The state's business-service industry is serving a growing global market, and our real estate and construction sectors are leading the nation.

So, while we're on a great path, our optimism must be tempered with caution.

All too soon, the current environment of low interest rates and easy access to capital will come to an end.

Historically, whenever the Federal Reserve shifts from an expansionary to a contractionary policy stance, the impact on financial markets, and, consequently, New York's revenue base, is unfavorable.

Consequently, it is critical that we look ahead and prepare ourselves for that day.

So, it is against this backdrop of economic uncertainty that we embark upon the revenue-consensus process.

It is important to note, that while there are differences in our forecasts, at a fundamental level, there is broad agreement that New York faces substantial risk given the nature of its revenue base.

We will need to take the type of responsible, necessary actions proposed in the executive budget, on both the revenue and the spending side, to strengthen New York's fiscal position, and at the same time, provide the tax relief, particularly from the state's high property taxes, that middle-class New Yorkers so richly need and deserve.

For four years, we've worked together to enact an on-time, fiscally responsible budget that embraces the principles that state spending must grow more slowly than the overall economy.

With the establishment of the 2 percent spending benchmark, the unsustainable trends of yesteryear have been reversed and we are seeing measurable improvements in the state's financial position.

By controlling and managing spending growth, we've reduced the need to engage in overly-aggressive revenue projections.

All parties deserve credit for responsible budget-making, and I thank you all for your cooperation.

Each of the forecasts before us today represents a good-faith contribution to the consensus process.

Looking ahead, I know we're all committed to meeting the statutory March 1 deadline for a consensus-revenue agreement.

Revenue consensus is an important component of achieving our shared goal of a timely and responsible enacted budget.

And at this point, I would like to offer the other members of the panel an opportunity to make their opening remarks.

SENATOR DEFRANCISCO: Thank you.

I think what's really noteworthy here is the fact that we passed a Budget Reform Act a few years ago, and we used to routinely not comply with a bill that we actually passed.

Over the last four years, I think, in no small part, due to adherence to that Budget Reform Act, today, as part of that adherence, having a -- this meeting in time to come up with a consensus is extremely important.

And, I'm glad we're on time again. I'm glad we got good experts to give us some guidance.

As a frequent watcher of CNBC, I usually have no clue of what the speakers are talking about.

And what I do, I can acknowledge, that with the economists, usually there's three with three different opinions, all going in different directions.

So I understand that.

That's why we've got so many experts today.

But, fortunately, in the three years that I've been here before this year, there's been a relatively close agreement on what all of you have to say, which makes our job a lot easier.

So, I welcome all of you, and I look forward to a fourth on-time budget.

And, I just want to make an observation, that I have been Chairman for -- a fifth on-time budget in a row.

I have been Chairman of the Finance Committee for four years. I don't think there's any connection to that.

But I'll remain --

UNKNOWN SPEAKER: [Inaudible.]

[Laughter.]

SENATOR DEFRANCISCO: Okay.

But, thank you very much, and I look forward to hear what you have to say.

ASSEMBLYMAN FARRELL: Thank you.

I am pleased to be here today.

Anything to get out of that basement.

[Laughter.]

ASSEMBLYMAN FARRELL: The Ways and Means Committee staff forecasts an acceleration in the U.S. economic growth, and a steady improvement in the state's employment and income for this year and next year.

As this forecast is not without risk, however, I look forward to hearing not only the panel's thoughts on the economic outlook for the state and the nation, but also your views on the risks that we face here at home, and abroad.

The independent analysis you share with us today will provide a solid foundation for us as we discuss and debate various aspects of this budget.

And I thank you for being here today, and I look forward to hearing about your comments.

Thank you.

SENATOR VALESKY: Thank you, Director Labate.

I want to join my legislative colleagues, Senator DeFrancisco, Assemblyman Farrell, who, jointly, will conclude tomorrow the public-hearing review process of the state budget proposal, so we continue to meet the markers to, potentially, lead to that fifth on-time budget.

Let me just suggest, from my perspective as

Deputy Leader of the Independent Democratic Conference, that I and the members of the Conference look forward to once again having a partnership role with the Senate Republican Conference in meeting these benchmarks in enacting a fifth on-time budget that maintains the fiscal responsibility that we've seen under the Governor's leadership these past four years.

And I'm confident, that in that spirit of cooperation, that we will indeed be successful in our efforts.

Thank you.

ASSEMBLYMAN OAKS: Yes, thank you.

It's my pleasure to be here as well.

As my colleagues have mentioned, we are in the midst of a process that, in adhering to it, it does feel a bit compressed, though, as we've run from budget hearing, and have that continuing on while we're here for this.

But, this is always enlightening for us.

You know, we've some of our people who crunch the numbers and do our best. And from that, we're a bit less optimistic than the Assembly Majority in how some of the revenues might come in.

Actually, the Governor, in his 30-day

amendments, brought some of his expectations on personal income-tax growth closer to where we are; but, in essence, we're all in the same ballpark. There aren't varying or widely divergent views.

And so I think that's helpful as -- from our perspective on this side of the table.

And, hopefully, in listening to you today, and whatever, we will have either our perspectives confirmed, or else push us perhaps in a little bit different niche or direction.

But, always appreciate the opportunity to hear your professional perspectives.

SENATOR DILAN: Good afternoon.

I'm State Senator Martin Malave Dilan, 18th Senate District in Brooklyn, and I'm here representing the Democratic Conference.

And Ranking Member, Senator Liz Krueger, and I, look forward to listening to the distinguished panel, and we, too, look forward to an on-time budget.

Happy to be part of the process.

Thank you.

MARY BETH LABATE: Thank you.

Mr. Ward?

ROBERT B. WARD: And on behalf of

Comptroller DiNapoli, I think the remarks that have been made about the progress the state has made, economically and budgetarily, the need to continue moving ahead and to look realistically at the risks that are out there, were all very well said.

And, looking forward to the insights from our experts here, and we thank you for your time being with us.

MARY BETH LABATE: With that, let's hear from the people that we're here to listen to.

We'll start out -- and I know we're supposed to have two of the panelists on the phone. I don't know if we've gotten confused.

So why don't we start out with Mr. -- with Ken, and we'll just go down the row.

KENNETH MATHENY: Okay, great.

So is that turned on?

It is?

Okay.

Okay, wonderful.

I'm Kenneth Matheny, with Macroeconomic Advisers.

Thanks for letting us participate in this.

I'm going to focus my comments on the U.S. macroeconomy, so I won't have much to say about

New York State, for example, although I'm sure some of what I say will maybe have some ramifications for the state.

But, I do want to underscore before I dive in and go through some of the slides briefly here that we've prepared, that some of the comments I've heard in last few minutes, I would just underscore, a lot of sensible comments.

You know, the outlook for the U.S. is cautiously optimistic, I would say, in our terms, but there are risks, and there are uncertainties.

One in particular that was mentioned, that I want to underscore, and that is, how markets might respond when the fed does begin to raise interest rates.

I don't think there's much uncertainty that the fed will be tightening fairly soon. Later this year, maybe in September, is the most likely date at the moment.

But, there is certainly a question about, how will markets respond as that tightening program gets underway?

So, that's just one of a number of risks.

If there's time at the end, I may highlight a few more.

All right, so let me dive in.

[Start of slide show.]

KENNETH MATHENY: Turn right to Slide 2, entitled "The MA (Macro Agenda)."

When you think about the U.S., it's hard not to think about us in a global context. There are a number of global pressures and themes that bear on the forecast.

Two that I will just highlight at the outset is:

What's happening overseas in terms of real growth, concerns about growth, particularly in Europe, and maybe in Japan to some extent, and some of the international economic and geopolitical tensions that are reflected in financial markets here.

One of those is the rapid increase in the value of the dollar on foreign-exchange markets.

And the second, and not wholly unrelated, is the sharp decline in energy prices that we've seen since last year. And those are having major impacts on the U.S. economy, and, indeed, the global economy today, and will continue to have impacts on the forecast.

We'll draw some of that out in a minute.

But, generally, our forecast is one of moderately above-trend growth; and by that we mean, GDP growth for the U.S., this is in real terms after adjusting for inflation, on the order of about 3 percent, or a little bit less, over the next few years, and that's enough to continue to put downward pressure on the unemployment rate.

We've fallen something like 4 percentage points coming out of the recession -- or, the Great Recession.

We think the unemployment rate at the national level is likely to fall down into almost 5 percent.

And I would have to say, if anything, the balance of risks on that are to the downside.

I think it's more likely we'll see unemployment below 5. Then, a year and a half, 2 years from now, we'll see it's at 6 or 6 1/2, something higher than where we are today.

So, strong -- moderately strong growth. Continued decline in unemployment.

We -- key assumptions -- or, factors in the forecast are, we assume that oil prices and energy prices, generally, will rebound, but slowly.

We won't get anywhere back over the next couple of years to the sorts of oil and gasoline prices that we saw, say, 9 to 12 months ago.

We also assumed that the dollar will decline, going forward. We think it's overshot a little bit on the upside. And as the dollar depreciates, that's going to have some impact on inflation and growth, particularly in the trade sector.

Generally speaking, financial conditions are fairly strong and are supportive of growth.

There are a few caveats in there, but that's generally the case.

Banks are becoming a little bit more lenient in their lending.

Risk spreads have narrowed.

Interest rates are low.

You know, generally, the financial conditions are supportive of strong growth, and that's reflected in very strong growth in what we component -- a large component of GDP we call "private final sales to domestic purchasers."

So this is a key measure of the underlying strength of demand in the private sector, and that's growing rapidly, 3 to 4 percent growth right about this period of time.

So that's helping to really pull the economy forward.

But, there are some factors that are holding us back.

In the near term, over the next few quarters, we're probably looking at some declines in inventory investment which will temporarily restrain GDP growth.

And, of course, because of the strength of the dollar, some concern about foreign demand, we're likely to see further declines in that exports, and that's going to be exerting a little bit of restraint on aggregate growth.

But, that's not enough to derail the economy, either of those features.

And in terms of financial markets, we look for continued gains in equities on a broad basis, but much less than we've seen in last few years.

But, generally, as I noted, improving financial conditions.

So, that's kind of a big overview.

I've got a handful of slides after this. I'll kind of dive through some of them, we'll be very brief.

The next slide, Number 3, rising dollar and falling oil prices, this just put as little flesh onto the comment I made a minute ago; which is, the economy, both the U.S. and global, has been influenced by, first, the sharp run-up in the value of the dollar over the last several -- since last year, and, also, the very sharp decline in energy prices.

And we've partial -- we're assuming partial reverses of both of those features over the next couple of years.

If we sort of put all of this together, what does it mean for the outlook?

And that's in the next slide.

The bars in that chart are forecasts of quarterly GDP growth. This is at an annual rate.

And then the red line there, this all-red line, is the path of the unemployment rate in the forecast.

So this is kind of, if you had to show the forecast in one picture, what would it be? It would be this picture.

So, we've got GDP growth, as was noted. You know, there's some signs that the economy may have slowed down a little bit in the last quarter or two.

We're tracking Q4 GDP growth at under 2 percent, between 1 1/2 and 2 percent now, just based upon the incoming monthly data that we get.

And, Q1, we're looking at something in the low to mid 2's.

I think 2.3 percent is where we are today, after the very latest report.

So growth at the moment doesn't look that strong, but we expect growth to pick up.

And it goes back to the point I made a couple of minutes ago, that in the private sector, private final demand is actually growing, particularly which -- if you also pull out the net exports, is actually growing at quite a robust rate.

We expect private final sales to domestic purchasers, this key component I mentioned, to be growing about 4 percent this year, and then growth well over 3 percent over the next couple of years after that. So, that's really powering the economy forward.

So GDP growth in the second half of this year, we think, we will rise to well above 3 percent, and then ease back a little bit into the high 2's after the second half of 2015.

Not spectacular by any stretch, but that's still solid growth, enough to put downward pressure on the unemployment rate.

I'm going to skip over the next slide, which just adds a little color to my comment, that financial conditions, generally, are improving.

And, jump over to Slide 5 -- excuse me, Slide 6, entitled "Receding Fiscal Drag."

The point of this slide is to say, okay, I've talked about the private sector, and the relatively strong performance we're seeing right now in private -- sort of the underlying strength of the private sector. What's going on in the government sector?

And as we all know, after the Great Recession, we had, you know, massive stimulus policies in an attempt to kind of pull the economy out of the recession.

As we got on the backside of those, that stimulus was falling off, and that led to a lot of drag on growth over the last few years, particularly up through 2013.

2014 was a bit of a transition year.

And as we go into the forecast, we actually expect a modest boost to growth coming about through fiscal policies, both state and local levels on an aggregate basis, and at the federal level.

Now, that's not worth a lot. We're talking a couple of tenths of a percentage point in terms of annualized GDP growth.

What's important is, we don't have that big drag that we had in years past; and, so, that's one of the reasons that's sort of reinforcing our expectation for fairly solid growth, going forward.

I mentioned, with strong growth, solid growth, that's somewhat above trend.

We expect the unemployment rate to continue to decline, and, generally, to lay -- for labor markets to continue to heal.

We look for payroll gains, on a monthly basis, for the entire U.S., to average about 240,000 persons per month over 2015, slowing to about 180,000 per month, on average, in 2016, and somewhat less than that in 2017.

As growth slows, we think employment gains will also slow down.

We also expect a little bit of a -- some firming in productivity growth, so that means less of that growth and output that's in the forecast translates into employment growth.

But, still, it characterizes as pretty strong performance in terms of labor markets certainly getting better.

We think the participation rate, which has been declining for years, is likely to level out. In fact, there's signs that it has done so over the past year.

So as the unemployment rate's declining, as workers are being drawn back into the labor force because they're experienced, so what they see: There's more employment out there. Employment's growing and unemployment's falling, the duration of unemployment is falling.

And we expect it to continue to do so, we're going to see an increase in the employment-to-population ratio, a key sort of measure of, you know, what's happening to, you know, the employment experience of adults, in the aggregate, through the economy.

I'm going to skip the next slide in the interest of time, and jump forward to Slide 9, "Oil Price Drop and Dollar Rise to Press Near-Term Inflation."

And, here, I kind of want to use this as a vehicle to talk a little bit about the inflation outlook, and there are a couple of cross-currents going on.

One is, as we all know, inflation has been quite low of late, for two reasons:

One, we've got declines in energy prices, as we've talked about, and that's holding down, you know, the decline -- much lower prices for crude oil are translating into lower prices for things that consumer care about; gasoline, perhaps, the most visible. And that's helping to push down headline inflation.

In fact, some of the monthly numbers on inflation have been negative of late. We had another big decline in energy prices in January, for example.

So, that's holding down headline inflation. We expect it will continue to do so for a little while longer, but, if energy prices kind of flatten out and then begin to drift back up, that development's going to reverse.

So underneath this, we also look at what's happening in inflation outside of the energy components, and we talk about core inflation, excluding the direct effects of food and energy.

Core inflation is also low. Not negative, but low. Somewhere in the low 1 percent range; 1 to 1 1/2, depending on which measure we look at.

Now, the fed has established a target for inflation over the longer term, of 2 percent.

We believe that, as the effects depressing inflation from lower energy prices and a stronger dollar gradually dissipate, and as the economy continues to strengthen, inflation will pull -- be pulled back up towards long-run inflation expectations which are also very well anchored at 2 percent.

So, we expect a gradual rise in core inflation, and then layered, on top of this are the effects of the swings in energy prices.

So if you look a headline inflation also including energy, not just the core, that, too, we think will settle in around 2 percent as we move out about a year and a half to 2 years from now.

Let's talk a little bit about fed.

Obviously, labor markets and inflation are the two key factors that tend to influence fed behavior.

As I mentioned, we expect, anticipate, that the fed will begin its tightening regime later this year. We're assuming the first tightening will occur in September, and I think there's risks to either side of that. But September I think is a good date to anticipate the first tightening.

Initially, after that, the tightenings may not happen that rapidly. Maybe every other meeting.

But as we move further into 2016, we think the most likely path is to have quarter-point hikes in the fed funds rate at just about every meeting, so that, by late 2017, the funds rate, we think, will be back up to 3 1/2 percent, which is what we peg for sort of the long-run equilibrium value for the fed funds rate.

Now, key question is, how are financial markets going to respond to that?

Certainly, other interest rates are going to be pushed up.

Long-term treasury yields, private-bond yields, and so forth, are going to be pushed up, mortgage rates are going to be pushed up, as the fed's tightening, and even in advance of that tightening.

But, will that response by financial markets be continuous and smooth and well anticipated, or, will it be just the opposite; will it be somewhat discontinuous?

And, you know, as was noted earlier, not every tightening cycle has been accompanied by a nice, smooth progression and response of financial markets.

So there's some risk the financial markets could respond in a discontinuous fashion, that there could be some up-settle along this path to, you know, renormalization.

That's certainly a factor to keep in mind -- or, a risk factor to keep in mind.

But, still, even with those increases in interest rates, even by 2017, rates are still low in historical context.

So, in and of itself, higher rates are not an impediment to growth and strong performance, even though there are some risks about it.

I think the last slide, with, you know, sort of numbers on it, that I'll mention, is, Number 12, "Leading to Improved Household Balance Sheets."

With equities continuing to expect to rise, we expect modest gains in broad equity indexes over next few years. Not as large as what we've had recently, but, moderate gains, as profits and dividends continue to rise.

That's going to support further increases in household wealth, along with rising home prices.

We've had big gains in household wealth over the last few years, a very strong recovery. And we expect continued gains, albeit a smaller pace, over next few years.

That's important, because it really reinforces the strength in the consumer sector.

So, I mentioned that consumer spending, early on, is growing pretty rapidly now.

We're tracking growth, you know, 3, 3 1/2, almost 4 percent in some cases, in terms of real consumer spending.

So, the outlook there's strong, and, in part, it's because of these wealth effects.

The other thing that -- is declining energy prices are putting a little bit more real purchasing power in households' pockets. That's also supporting strong growth in consumer spending.

But it's important to bring the financial aspect back in and circle back, and, you know, sort of complete the circle; say that's one reason why we expect fairly solid growth.

So, I'd say that's a fairly, you know, sanguine outlook. We're cautiously optimistic.

But, I can't end without noting that there are a number of risks.

And the last two slides in my handout list a very, very brief list, and we could make much longer ones if we had time, about a number of the risks to the outlook for the U.S. economy.

The point I would stress --

And I'm not going to read these back to you. You can look them over. There's a number, and many more.

-- but the one point I would make, is that the risks are not one-sided. There are not just downside risks or just upside risks to the outlook.

And I'll give you a couple of examples.

It's easy to focus on downside risks.

I think financial markets, to some extent, if you look at, for example, a very low level of long-term interest rates, treasury will suggest there's a lot of focus on downside risk.

But here's an upside risk: Wage growth has been fairly anemic coming out of -- you know, during this recovery. There has been just very, very little pickup in the growth of wages.

But as labor markets tighten, as businesses see more growth and demand and output, as the unemployment rate falls, as businesses have to work harder to recruit the kinds of employees they need, I think we're going to see wage growth pick up.

We've got some of that in our forecast, but, I think that the balance of risks there are probably tilted to the upside.

If that happens, that makes the outlook for consumer spending, and GDP growth, in general, look a little better, maybe even than what's in this packet here.

So, with that, I'll end my prepared remarks.

I don't know if you want to do a little Q&A for a few minutes?

MARY BETH LABATE: I know that Ken may have to leave a little earlier than [inaudible], so, if anyone has questions now for Ken?

Anyone?

Thank you.

Moving on to -- I think we still might be waiting, so why don't we move on to the James Diffley.

JAMES DIFFLEY: Thank you.

Good afternoon, everyone. Glad to be here again.

I anticipated you speaking ahead of me, as he usually does.

So let me report on IHS's projections for the nation, and the state, in the context of this budget process.

First -- so we've got a slide set here, I'm sure that you all have.

[Begin new slide show.]

JAMES DIFFLEY: U.S. economic expansion will continue.

We've, as the Director said, a windfall to American consumers, across the board, in terms of oil prices -- I shouldn't say across the board, because there are negatives that we'll come to in terms of the effect of higher oil prices. But, clear accelerations in consumer spending that outweigh all of the off -- some of the offsetting factors.

And home building, we hope, will boost real GDP growth, from 2.4 percent last year, to 3.0 percent in 2015, which will be the best year since 2005, the strongest growth in GDP for a year.

Consumers step up spending in response to the lower energy prices, and robust gains in employment that have now shown a very momentous labor market in the last half of last year, coinciding with real income gains and net-worth gains at last.

The recovery in home building, which is on shakier ground than the other things we're talking about, but we think will gain momentum as labor markets improve and credit standards ease as they have been, at least gradually.

A strong dollar, all right, largely because of the effects of the now favorable turn in terms of the balance of payments with -- given low oil prices, will be a negative on the net-export sector, reducing the demand for U.S. exports, increasing the demand for imports, by virtue of the exchange rate.

There will be cutbacks, and have been cutbacks, in energy-related, oil and gas development investments, not so much affecting New York State directly, but it does affect indirectly in the supply chain, but in various pockets across the country.

We still think, by the way, just to give a little regional flavor, that Texas will be one of the leading states in growth over the next few years, but at a more muted rate than it has been in the past.

Okay, the -- and a slowdown in inventory accumulation will also be restraints on measured GDP growth.

Interest rates are set to rise, and we've been watching it for a while. And fed Chairman Yellen gave a very detailed speech earlier in week.

So we're looking at, over the next three years, interest rates coming up, similar to as Ken pointed out, as a monetary accommodation to boost the economy gradually [unintelligible].

But we think fed is well capable of handling the transition.

The price of now Dated Brent crude oil, the standard is expected, for us, to average $47 per barrel this year, and $63 in 2016. So, we don't see it coming up very much in 2018, but it will come up a bit in 2016, but nowhere near the $100 levels that we, until very recently, had been expected.

All right, so a major boost for American consumers.

The second page of the handout shows the graph of real GDP and employment rate, both historically and in our forecast.

You'll notice the blue line coming up, and down. That's a -- measures a -- six long years of a cycle, with unemployment rate rising dramatically to almost 10 percent for the nation, and coming down continually till now.

The rate of decline in the unemployment rate will naturally fall off because we're getting closer to full employment, but fall off, in part, though, because, as Ken mentioned, labor-force participation is being encouraged, and that will add available labor force, which tends, by itself, to boost the unemployment rate, at least in a measured sense. But they'll be able to get jobs. Job growth will be strong.

GDP growth, you see the huge vertical green lines just before 2015, that's the last two quarters of 2014.

The -- we'll have an average of 3 percent for the upcoming year, 2015 -- or, this year, 2015, and continuous strong growth, as opposed to the GDP numbers we have seen between, say, 2011 and 2014, where it was a few strong quarters followed by weak quarters [unintelligible].

And that's why we come up with, finally, 3 percent, which is a healthy long-term rate of growth for the U.S. economy in terms of real GDP.

If you turn to next slide, we have a table of GDP -- real GDP and its components.

Real GDP, you see the 3.0 in 2015. As I said, the best since 2005.

Consumption, remember this is real terms. Okay?

The State collects nominal dollars in sales tax, et cetera.

But consumption is going, in real terms, above 3 percent. And these are calendar-year measures, by the way, at 3.6 percent in 2015, 3.3 percent in 2016, almost 3 percent in 2017.

Residential investment, mainly housing, and housing starts, it's been up and down for the real-estate recovery.

As you may know, only 1.6 percent gains in 2014. We do see double-digit gains, though, in the next two years. That's the most fragile part of the forecast.

Home sales at the start of 2015 have been weak, you know, somewhat weaker than expected, so we'll have to watch those.

Business fixed investment, less than a 6 percent in 2014, but still a healthy --

And, remember, these are in real terms. Right?

-- inflation-adjustment terms, almost 5 percent this year, and almost 6 percent next year.

Federal government, a modest drag on gross state and local government now positive.

The net-export sector -- exports minus

imports -- the exports growing at a rate that boosts the economy 3.3 percent, that's fine, but imports are growing even faster at double [unintelligible]. And that's largely the consumer side.

Okay. The next slide, let's talk about labor-force participation, and you see our view of it.

Labor-force participation has been a bit puzzling.

The question is, why is it so low?

Part of that is demographics, an older work force, and part of it is, of course, the lingering effects of the recession and the vast increase in the long-term unemployed.

Because of the population aging, though, we don't think the labor-force participation rate, which will be coming up -- if you look at the blue line to the right of the vertical line, which is the edge of the forecast, we do see it coming up a bit, but not reaching previous levels which you see in the 1990s, above 65 percent, the measured labor force as a percent of the working-age population.

So the unemployment rate, while coming down, at least initially, will be coming down a little slower than it has been; but, nevertheless -- so the upshot of this is, labor-force growth is going to be smaller than we have expected in the past.

So, job gains, once we get back to full employment, are going to be at a slower rate than you might have expected, a couple of tenths.

And the same is true in New York.

On the other side, we also agree wage gains have been muted.

The next slide.

Labor compensation, we do expect to accelerate, finally. Many of us expected 2014 to be a breakout year in that regard. We're now hoping 2015 will.

You see the blue line there, the benefits; but, also, wages and salaries and total compensation, at faster rates. This is the growth rate chart, so faster rates than we've seen since 2008, basically.

Okay?

That's benefits, going forward.

The next slide, our view on oil prices, which I mentioned, just briefly, you know, to put this in context: The unconventional supplies of oil in the U.S., particularly in the Bakken Shale in North Dakota, which, as you all know, a lot of it flows through New York State, from Buffalo to Albany, and down the Hudson, the -- and other unconventional sources across the U.S., including Pennsylvania, have greatly increased the supply of oil.

That was somewhat masked for a couple of years by the disruptions in Iraq and Libya. Right? So it didn't depress prices as much as it would have earlier, a few years ago.

Now with those countries now producing a lot of oil, now, suddenly, Saudi Arabia saw that the price -- the equilibrium price in the market would come down dramatically, and they -- unless they cut back. And they decide not to cut back, so they let it come down.

And that's the basic story.

We see oil production slowing in the U.S. in the second half of 2015, and around the world, of course, in response to lower prices.

So it's a bit of a lag in the negative response of the high oil price -- the low oil prices, sorry, in terms of reducing oil and gas investment in the U.S., and the multiplier effects of that.

So, we get a bit more of a drag on growth from that factor in the second half of the year.

It doesn't overweigh -- outweigh the stimulus from increased consumer spending at low oil prices, so we should be for low oil prices, by all means.

But, there is a negative impact that we'll see loaded to the second half of the year, as opposed to the first half, and that explains sort of the quarterly pattern that we see in real GDP growth, or at least part of it.

Okay?

On the next graph, the graph shows how much that means to U.S. consumers.

Here, we've plotted the retail gasoline price.

And our forecast of it, by the way, under that scenario, we do see, ultimately, oil prices recovering in the world market.

But the big drop here, and the -- related to that is on the right-hand scale: Spending on motor fuels per household.

So this is the direct windfall to U.S. consumers: how much they spend on gasoline at the pump, and how much that means to them.

At the bottom, if you look at the graphs, it's, about, $1,000 per year is the benefit from the recent reduction in oil prices. So, that's a direct stimulus.

It happens for everybody in New York State -- every driver, for instance, in New York State, you see the positive impacts it has.

Next slide, we do think the recovery in the housing markets will strengthen.

I mentioned labor-force participation.

One of the things that happened after the recession, is we started talking about what the "new normal" might be in terms of household behavior.

One of the factors that we were concerned about, or we had to watch -- we recognized we had to watch, was the change in labor-force participation going down in the recession, and would it recover?

Okay?

Big question, going forward.

The second part is the change in household formation, which dropped dramatically during the recession, for obvious reasons.

You know, students came back home, young adults came back in households; households were generally bigger.

That was not a surprise during the recession.

But, at the same time, because of the housing bust, big houses became somewhat out of fashion relative to the past, and we were wondering about a change in household conditions.

And it was an open question as to how strong household formation's going to be, going forward, to support real-estate construction markets as healthy as they had in the past.

The recent data have been disappointing in that regard, even in 2014.

Household formation, as measured by the census -- which, by the way, is measured with the great deal of error, so you shouldn't -- you know, a great deal of volatility, so you shouldn't take it too seriously -- but there is a concern of the "new normal," including lower rates of household formation, which means the real-estate markets, in general, won't come back and be a driver for economic growth, going forward.

So what's happening now, though?

The recent job growth does increase housing demand.

The -- now, last year you saw moderation in home-price inflation.

We saw not incipient bubbles as we saw in last decade although some could argue that; and, for instance, the Bay Area in California -- in San Francisco.

But, certainly, not here, and, maybe -- except in Manhattan apartments and high-end housing there.

But, the moderation that we saw through 2014 increases affordability once again and helps to get people into the market.

The lower-income and younger part of the general homeowner-demand segment has been hampered by much tougher credit conditions than in the past.

You know, the standard now, is it requires a 20 percent down payment, which was relaxed quite a bit, too much, during the bubble, but, it could be a little lower than it was [unintelligible].

It's a little more flexible now.

And then there's the reduction in home equity in a lot -- that a lot of people had in their existing houses that they lost in the bubble.

So, we're still having trouble in the low end of the market -- lower-income levels, lower house-price levels -- getting demand.

And at the same time, because families are -- because of low equity, are discouraged from moving, that also decreases the supply of homes in that segment too.

So, the high end of the market -- million-dollar houses, high-income houses -- are doing better now, and the rest of the economy will follow with -- particularly with improving job conditions.

The supply of buildable lots we thought was a problem, partly due to credit conditions, because the prospective builders had to get credit availability there too.

Multi-family units jumped up in proportion, and was -- is still going to account for about one-third of the starts.

But, the single-family market is the one that's really coming back.

Young adults, as I mentioned, are delaying home ownership.

And, baby-boomers, the flip side of it, the older generation, is starting to downsize away from the McMansions, which puts downward price pressure, of course, on those houses, which we'll have to watch.

Okay?

The next slide, the multi-colored slide, is risks to the forecast.

The Director mentioned preparing for, not so much downturns, but weaker growth than we've had in the past, and that's something we do all the time.

We always have three scenarios: a baseline, and both the positive and negative, and we put probabilities on them.

Right now we've got equal-weighted; 15 percent to the high side, 15 percent to the low side.

The low side includes the low household formation, you'll notice in the bullets there, and I won't get into the rest of it.

But, what's the high side?

Oil prices falling further;

Housing markets rebounding to, you know, more healthy levels quicker than we thought;

And then global economic growth lifting U.S. exports.

The European economy is -- has been in tough shape.

We're hoping to get out of the mess there. We'll see what the resolution of the Greece -- the Greek crisis is. But, it does bode ill for the general European economy which is the strong driver of growth.

China, for exports, China is decelerating.

All right?

Still going to have healthy growth, but decelerating relative to what it has been.

India, on the other hand, is poised for stronger growth.

So, those are the -- part of the scenarios that we weaved together.

If you turn to the next slide, you see the implications of those scenarios, in terms of at least one factor of import here of interest here.

Real consumer spending, between the red and the green lines, is a total of 5 percentage points in difference. And that would translate to 5 percentage points, and whether you're thinking of real or nominal spending.

That's -- plus 3 percent on the upside in our optimistic scenario. Minus 2 percent on the low side in our pessimistic scenario.

Again, with, roughly, 15 percent probability on our side.

Turn turning to the regional outlook, we've got a couple of maps here.

And the major thing we see, here, we're

looking at growth -- job growth in the next year and the upcoming year, through 2015, state by state, across the country.

And you'll notice New York in the lowest segment of that. We've got about one -- between 1.2 and 1.4 percent for New York State, in the tan, or gray, section there.

The south and west lead.

All right?

Now, part of it, first of all, it's already in place. That's what 2014 looks like.

The -- but there's a little -- there's one other factor you need to consider here.

The south and west still have a lot of what you might think of excess capacity, both in the business and labor markets. Their recession was deeper than New York.

New York, very early in the recovery, regained all the jobs lost in the recession.

So did Texas in the mid-section of the country.

But California and Florida are way behind that, and continue to be way behind, particularly the southeast [unintelligible] Florida.

So some of the growth rates that we see, going forward, right, are telling us is healthier growth in the south and west now than in the northeast, particularly New York.

But, part of it is just a catch-up.

All right?

So if we look over the course of the whole cycle, New York has actually done pretty well.

But, that said, having done that, the expected growth, going forward, in our view, is going to moderate.

And I'll come back to the numbers in a minute.

Let's show the -- the next map goes to the near-term 2015 to 2019, the next 5 years.

And, again, you see, not surprisingly, a similar picture of more moderate growth in New York and the northeast and midwest that you see across the country.

On the next slide, I look at the sectoral detail of New York growth.

And I agree with the Director's comments here, that there has been a shift, or a greater help, in the high-wage segments, particularly in what you see here, is the 3.5 percent professional business services.

But, overall, employment growth has been lagging the nation.

Most notable thing about this is the financial sector being very low, which, of course, we've discussed here. Very little growth.

And I know that Ronnie, and I think Jason on the phone, are going to talk about New York City in more detail, so I'll leave that to them.

But it's very interesting that New York's growth up to this point has not been boosted by the typical driver of growth, which is downstate -- downstate financing.

Okay?

Looking across the metro areas, the next bar chart, New York City, not surprisingly, leads.

All right?

I've given the broader New York metro there, by the way, as well as the -- as well as New York City itself.

Upstate New York, and particularly Syracuse, Utica, the mid-section, is weak.

Buffalo is not exceptionally strong, but there's great promise in Buffalo.

I've spent a lot of time in Buffalo recently, in the "Buffalo Billion," I think it's called by the

Governor. But, there's a lot of developmental activity downtown. And in the area, a lot of optimism, going forward, for Buffalo.

The next map shows home-price growth. This is actually through the third quarter of 2014, the latest data.

Again, weaker real-estate recovery now in New York. And that's, generally, actually true over the course of the cycle.

Except for New York City, while the bubble wasn't too high Upstate New York anyway, but the rate of the expansion in the real-estate market is slower than the rest of the country right now.

Put that in perspective.

We do have our forecast on the next slide, the bar chart and graph, both of housing starts and average home price.

You see home prices recovering by the end of the decade to their peak across state, and by some measures, they have already.

This is one particular measure based on the federal Housing Finance Authority.

But I want to point out the bar charts there, the other bubble that occurred in the mid-part of the last decade, and that was in building itself.

And, there, we don't see that coming back in New York at all.

Okay?

And the question is how close the country gets to their previous peak.

But there were -- in other words, there were two bubbles: the price increases, and then crashed, but also the building increases.

And the building increases are really affecting the real economy as well, driving demand for construction jobs, and the like.

Summarized on the next slide is New York growth by different economic indicators across the fiscal years. This is fiscal-year tabulations here.

And you can see, gross state product, less than 2 percent for fiscal 2014 and into fiscal 2015, trailing the nation, as I said, but moving up, 2016 and 2017.

And, similarly, you're seeing employment and personal income.

I'll make a note, because I was reviewing the budget publication ahead of time: The division of budget adjusts their employment numbers for expected revisions, and they'll be out in a couple of weeks; so, we'll see.

We're using the existing DLS numbers, so that's why we're showing lower growth, even in fiscal '14, I believe.

We are, though, a little less bullish, or more bearish, about employment growth in the upcoming years, so -- but the actual level of the numbers was explained by that adjustment there that the budget office makes.

So, what's the bottom line?

Trailing the nation now, part of that is due to the relative shift, as the south finally recovers and the west finally recovers from the recession.

We're trailing in jobs.

Wages are not as disadvantaged, but, the overall rate of growth, we do see it as lower than the nation, which is, of course, what you expect in the long term, to some degree, which is based on the different demographics.

New York City clearly leads the state, most notably, though, not the financial sector in New York City.

There is optimism in Buffalo, as I mentioned.

And the conclusion is, that we're going to have growth. It's going to be moderate over the near term, over the budget cycle, going forward.

Thank you.

HUGH JOHNSON: Can I interrupt?

I don't mean to interrupt, but I have been getting some notes that nobody can hear me.

Can you hear me?

SENATOR DILAN: We can hear you, yes.

JAMES DIFFLEY: We can now, Hugh.

HUGH JOHNSON: Okay.

I'm sorry to interrupt, but that's -- the notes I've been getting, and I thought I was plugged in, but, I didn't know.

Okay, I am on, so, if anybody -- whenever you want me to speak, I'll be happy to speak.

MARY BETH LABATE: Okay, very good.

Let me just see, are there any questions of Mr. Diffley?

SENATOR DEFRANCISCO: Yes, page 3, when you talk about the unemployment rate, are you talking about all people unemployed, or all people that are seeking employment that are not in the job market?

JAMES DIFFLEY: Right, this is the narrowest measure, which is those people who are in the labor force and actively look for a job, what percentage of those people are not --

SENATOR DEFRANCISCO: Do you have any

estimate as to the number, what the percentage would be, in terms of people that aren't in the labor force?

JAMES DIFFLEY: The BLS (the Bureau of Labor Statistics) has six different measures. The largest one is, roughly, double this.

I don't know the number off hand, but, you're right, it would be above 10 percent now.

SENATOR DEFRANCISCO: And what's the -- what are the factors in trying to get more people in the market?

JAMES DIFFLEY: Well, it's discouraged workers, for one.

And that's the interesting thing, when I talk about the labor-force participation rate increasing, and hence muting the further fall in the unemployment rate, that's getting those people back into the labor force.

They come back in looking for a job, and think-about the time lag here.

When they don't find the job, they count it as unemployed.

So that by -- being unemployed now, as opposed to being outside the labor force, that tends to boost the unemployment rate.

There's nothing negative that's happened in the economy, other than these people looking for a job.

But with job opportunities expanding when they find jobs, that then reduces the unemployment [unintelligible].

Okay?

SENATOR DEFRANCISCO: Well, I guess my concern would be, if you're really hurting and you need food for the table, you'll get a job.

It may not be what you're looking for, but it's a job, and it puts less pressure on government forces having to take from others to pay for the person who chooses not to take the job.

I think I've asked you the same question before:

I don't even know when the unemployment insurance has expired. I know it was up to 99 weeks at one time. I haven't followed it.

But, how long can someone have unemployment -- get unemployment insurance -- or, unemployment payments?

JAMES DIFFLEY: Well, the extension from -- it's normally 12 months.

The extension to two years has ended.

SENATOR DEFRANCISCO: It's ended, as of when?
JAMES DIFFLEY: I don't have -- I forget the exact date.
SENATOR DEFRANCISCO: But is there --
JAMES DIFFLEY: Some economists have studied it and prescribed a couple of tenths of a percentage point increase in employment following the expiration, because --
SENATOR DEFRANCISCO: That's what I was getting at; has there been any indication that that has happened?
That --
JAMES DIFFLEY: There is an indication --
SENATOR DEFRANCISCO: -- there are more people looking for a job?
JAMES DIFFLEY: There is an indication, and it's a debate over the size of the effects.
SENATOR DEFRANCISCO: Where can I find the parameters of the debate?
JAMES DIFFLEY: Well, I'll give them to you afterwards.
SENATOR DEFRANCISCO: Okay, thank you.
JAMES DIFFLEY: By all means.
But one other factor, though: When I mentioned six different measures in the

unemployment, one of them includes the group of people who are, for instance, taking part-time jobs even though they'd rather have full-time jobs.

And you also want to consider people who are taking, as you say, more menial jobs when they would rather have -- they have higher qualifications.

All of these things -- an expanding economy will benefit all of those things, reduce all of those adverse situations.

SENATOR DEFRANCISCO: Thank you.

MARY BETH LABATE: Anyone else?

Hey, Mr. Johnson, we're going to give you a try. Hopefully --

HUGH JOHNSON: Thank you.

Thank you very much, Madam Budget Director.

And, I commend both Ken and Jim for their very comprehensive and useful discussion on what's going on in the economy.

It's very hard for me to be able to say something that they haven't already touched on and given you all the information that you really probably need.

But, at any rate, thank you very much.

And, hopefully, hopefully, you can hear me clearly. That's important.

And, once again, thank you very much for inviting me back to participate in a pretty important part of the budget process.

Let me -- let me -- I'm not -- you have a handout, and I'm not going to labor through the handout.

I'm just going to try to hit what I think are the important points that are contained in the handout, and you can sort of fill in by reading the handout, or add to what I'm going to say.

The approach that I've had in the past in talking to you, and the one I want to pursue today, is -- which is, first of all, to start with, what I take to be the most important question that faces not only investors, but also faces policy-makers such as yourself, and particularly a part of the budget process, and the real key question, the most important, crucial question, is: Do we have further to go in the current stock market economic-expansion interest-rate cycle?

And if we do, that's good news.

And, obviously, if we don't, that's not such good news.

What I like to do is to take a look at the financial markets as giving me an idea, a fairly good idea, probably better than forecasters, as to whether, indeed, we have further to go in the current cycle.

And if you look at the performance of the financial markets, and I talk about both the equity markets, as well as the fixed-income markets, as well as all international markets, if you asked the question, "Based on the performance of the financial markets, do we have further to go in the current cycle?" an answer which has already been, both, implied, as well as stated by Ken and Jim, is the answer -- and the answer is yes.

Now, I would add, importantly, that there was a time, between January of 2014 and the so-called "correction lull" of October of 2014, when you begin to question that, or ask the question, or, basically, have the impression, that maybe we don't have further to go.

Given the performance of the financial markets since October 15th, the equity markets and the fixed-income markets, you have to conclude that the message of the financial markets is, indeed, that we do have further to go in the current cycle.

There are some -- there are some variables, I'll call them "internal fixed-income variables," that seemed to be suggesting otherwise.

For example, the spread between corporate bonds -- BAA corporate bonds and 10-year treasuries has begun to widen, suggesting that the fixed-income investors are concerned about something and unwilling to take greater risk.

But, generally speaking, if you look at the performance of the broad-based stock market sectors within the stock market, capitalization within the stock market, even the yield curve, you're left with the impression we do have further to go in the current cycle, which is, as I mentioned, is fairly good news.

Not only is that the message of the financial markets collectively, but that message is, in my view, confirmed by what I take to be pretty important monetary and economic variables.

Obviously, Federal Reserve policy has been accommodative. Understatement of the year.

In addition, as was mentioned by the two previous speakers, we're seeing a pickup, or even an acceleration, maybe that's too strong of a word, and -- in bank lending.

Money growth is certainly a strong, or certainly solid.

Liquidity conditions are positive. There's enough liquidity to drive both the economy and the financial markets.

And all of this shows up in leading indicators for the economy, which have continued to expand, having expanded in 10 of the last 12 months, being unchanged in one month, and declining in one month.

So, from 30,000 feet, looking at the performance of the financial markets, and the performance of what I take to be important monetary and economic variables, the outlook is positive. Or, the current bull-market economic expansion, and eventually we'll get to it, rising interest-rate environment, will continue through 2015, and with a little luck, 2016 as well.

In addition -- after having sort of looked at it from that point of view, I've included -- in the handout, I've included what -- a couple of tables:

One which shows the consensus forecast for a lot of the numbers that you're going to need to use in forecasting-revenues numbers, that I take from the consensus, as measured by Blue Chip economic indicators. That's about as good as anything.

I also have a table in there that shows my forecast.

Essentially, the first question -- everybody, and I include Macroeconomic Advisers and IHS, are generally around the same number on overall economic growth for 2015 and 2016.

I take a look at not just their numbers, but also the numbers that I just got which show the view of the Department of Budget, Senate Majority, Senate Minority, the Assembly Majority, Assembly Minority, on gross domestic product, or the top line of economic growth, and everybody's pretty much around the same number for 2015 and 2016. Essentially, around 3 percent.

I don't think there's any reason to strongly argue with that.

As I said in the past, there's a little bit of whimsy to the level of confidence I have in the forecast for, let's say, 2015, through the forecast period -- the 2-year forecast period, you tend to see the consensus pull in one direction.

It starts either too high, and continues to decline through the 2-year forecast period, or it starts too low, it tends to rise.

This time, sort of uniquely, the consensus forecast for 2015, and, again, that's around

3 percent, has been pretty flat, suggesting -- and, again, this is whimsy, as opposed to economic research, suggesting the current consensus of around 3 percent is probably -- probably the right number.

What has been mentioned, which is a little bit odd, is the -- well, I don't know if I would call it odd, but what has been mentioned by -- certainly by Ken, is the numbers that you're going to look at for inflation, both headline inflation and core inflation; but particularly headline inflation.

And, when you get to that number, you're going to see -- most likely, you're going to see a year-over-year number for 2015 which is below 1 percent, and a year-over-year number for 2016 which is either just below 2 percent, the Federal Reserve so-called "target," or just above that 2 percent target.

I see that the so-called, sort of, "five-way average," Assembly Majority, et cetera, is .2 percent for 2015, and 2.2 percent for 2016.

I think '15 is going to be higher than the .2. I have it at about.9.

Forecasting inflation, believe me, folks, is extraordinarily difficult, and I have it a little bit below that 2.2 percent for 2016.

So I, quite frankly, would probably come up a little bit on the 2015 five-way average of .2 percent. And I think the 2016 number of 2.2 percent is probably about right.

I don't have any reason to really differ strongly.

A lot of the other numbers, whether we look at corporate profits, non-farm payroll employment, and personal income and wages, I would probably stay fairly close to what is -- what I'm looking at, which is the five-way average.

Yes, I have personal income at less than the 4 percent of 2015, or 4.4 percent.

Yes, I have wages at less than 4.5 percent for 2015.

But there's a very strong consensus among the various forecasting units of the, roughly, 4.4 percent, and 4.5 percent, for income and wages.

I would most likely, even though I'm a little bit lower, probably stick with those numbers.

These are important numbers because they're going to drive -- ultimately drive your forecast for revenues.

Three-month treasury bill rate, you're

probably fine on 2015, but too high on 2016.

The number you have for 2016, which is 1.5 percent, on average, for 2016 over 2015, implies, statistically, that the Federal Reserve is going to be far more aggressive in raising short-term interest rates, that I believe is the case. So, I think that number has got to come down.

I might add, that I agree with Ken, that we're talking about -- I was talking about June.

But after listening to Janet Yellen and thinking about it, particularly looking at some of the more recent numbers on inflation, I think September is probably a better bet as to when the Federal Reserve has what we're now I guess calling "lift off"; or starts to raise short-term interest rates.

If they start in September, the number of 1.5 percent that you have for short-term interest rates is simply too aggressive, it's too high.

And I might add, importantly, that the yield on a 10-year treasury, I don't think it's going to get to -- I'm including 2016, to get to over 3 percent until late 2016 at the earliest.

In other words, the consensus forecast for longer-term interest rates, in my judgment, is also simply too high.

Those are numbers which you might want to adjust as we take a look at things.

I also have in there numbers about New York State; numbers that have been referred to already: New York State, and how New York State is going to fare compared to the national economy.

Like -- as Jim has suggested, whether I look at the Index of Coincident Economic Indicators for the U.S. or New York, or I look at the growth rate of non-farm payrolls for the U.S. and New York, the unemployment rate, growth of the labor force, it's going to continue to be the case, that -- the lack of a better way of saying it, that New York State economy is likely to hover below the national numbers.

So, for example, with the growth rate of the national economy, growth rate of non-farm payrolls, being about 2.0, maybe a little bit above that, I would agree with Jim that we're probably going to be closer, for New York State, about 1.4 percent for both 2015 and 2016, which is below the results we're going to see for the nation as a whole.

I might add, that there are a number of metropolitan statistical areas in New York State, and these are across New York State, Upstate New York, which are likely to experience, with one exception, Elmira, but experience positive growth in payrolls in 2015 and 2016, for the two years.

But, you're going to see the -- an ongoing disparity, I guess is the way to say it, or divergence, between the growth of payrolls for downstate and upstate, with areas such as Buffalo.

Now, I tend to -- I understand about the upbeat assessment of Buffalo. I hear it myself.

But when I crunch the numbers, and this could be misleading, I could be off base, but the numbers I get, Buffalo, Rochester, Syracuse, Elmira, and Binghamton, are -- they're positive, but they're certainly not -- certainly not equal to what we see for New York State overall, or, for various areas of Downstate New York.

There are some areas in Upstate New York where I would forecast, interestingly, and surprisingly, somewhat strong numbers. Kingston, Glens Falls, Utica, Albany, interesting things going on there, I think; particularly in the Albany area.

Federal Reserve policy, I've already mentioned.

As I mentioned, Ken and James have done a really good job on taking a look at Federal Reserve policy.

It's pretty close to guesswork, but based on recent inflation numbers, and what's going on in the inflation side of things, and listening very carefully to Janet Yellen, who has made it fairly clear that the fed is not going to raise interest rates at the next two meetings, that there's room, I guess in her mind, for significant improvement in employment conditions, broadly defined. And that, although it's going to take time, over time, that the rate of inflation will approach that "2 percent" number, and that gets to that 2 percent in 2016 that I mentioned before.

But listening to what she has to say, I think probably the most sensible conclusion is to conclude that the Federal Reserve is likely to move in September.

I also have numbers in there on what I think that implies for interest rates.

And as you can see from the numbers that I have, that it implies, statistically, that interest rates are not going to be anywhere near as high, both short-term and long-term interest rates, as is currently forecast by the consensus.

I have some numbers there on housing which are fairly good, so it looks to me as though housing is going to be pretty close to consensus, if not a little bit above consensus, as we move through 2016.

Stock prices:

I think this is pretty much implied, or actually mentioned by both Ken and James; and that's that my expectation is, we've really good years in, obviously, 2013 and 2014.

The growth rate of profits I think is going to come down and be mid-single digits, as it was in the fourth quarter.

With the growth rate of profits, whether we're looking at corporate profits or whether we're looking at S&P 500 operating earnings, mid-single digits.

That's not particularly good news for a stronger growth and stronger rise in stock prices.

And, in addition, if the Federal Reserve is leaning towards restraint or starting to raise interest rates in September, that's not very good news for price earnings; the expansion of price-earnings ratios.

Price earnings-ratios are likely to come down just a little bit.

And if you put the two of those together, the two primary drivers of stock prices -- again, profits, on the one side; interest rates/price-earnings ratios, on the other side -- about the best you can do is make the case for, in my judgment, mid-single-digit growth rates, or rise, in stock prices; mid-single-digit average annualized rates of return.

That's good news in some ways, because it will be higher than the bond market which will be pretty close to zero to 1 percent.

But, nevertheless, it's not going of be as good as 2013 and 2014, and that's going to have an impact, and not a particularly good one, on Wall Street, which gets you, of course, to -- gives you a variable on thinking about revenues.

We've talked about the risk to the forecast, emerging markets and developed markets or foreign markets, Europe.

My expectation, like everyone else, is that the price of oil is going to go up to between 60 -- West Texas Intermediate between 60 and 70 dollars per barrel.

But having said that, the damage that's being done to the economy of Russia, I expect it to contract 3 1/2 percent in 2015. That will have some, but not a significant, impact on Europe.

It will have some impact on the U.S. It's not going to derail the recovery or the cycle in the U.S., but it will have some impact.

But we're now seeing, we're currently seeing, to some extent, unexpectedly, very good performance from the equity markets of Europe, relative performance, relative to the U.S.

And particular good relative performance of the northern European countries: the U.K., France, and Germany. We're also seeing the consensus forecast for those three countries of -- start to stabilize or improve.

And I'm also hearing, anecdotally, that there's improvement in Europe, generally, but particularly the northern European countries.

So I think that, we're not talking about a recession, and we're not talking about deflation in Europe, even though they're likely to be impacted by the events that are transpiring in Russia.

But, nevertheless, the economy is starting to look better, or it doesn't look to me as though -- it doesn't look to me as though Europe is nearly as significant a risk as I would have said three or four months ago.

So that's -- that pretty much covers everything.

I've looked at revenues, and, it's interesting, that I've got -- just for an example, my personal income tax numbers, or forecast, if you may, is not particularly sophisticated. It's good statistically, but it's not, in my judgment, something I would hang my hat on.

But for personal income tax numbers, for 2015, fiscal year, .4 percent; 2016, 2.1 percent.

So my numbers, I don't know where everybody else is on these numbers, but, you can see in the handout that I've given you, I've got some fairly specific forecasts for different revenue -- different revenue categories.

Overall, what this all says is this:

The message of the financial markets is, we have further to go in the current cycle.

That's very good news.

We can quantify it at about 3 percent, around 3 percent, for 2015 and 2016.

New York State being a little bit less than that, that carries with it specific implications for New York State revenues, which I've summarized in my handout.

And, then, there's a lot of information in addition, things we can think they, as far as, particularly different areas of New York State, some which will do well, some which will do, let's just say, less well.

And that's pretty much it.

MARY BETH LABATE: Any questions for Hugh?

I have one.

Thank you very much, Hugh.

I just have one question.

HUGH JOHNSON: You're welcome.

MARY BETH LABATE: I just have one question.

The market was obviously very strong in 2014.

Why do you think the Wall Street revenues were so weak, in light of the market?

HUGH JOHNSON: That's a -- that's a good question.

I don't know the answer to that question, other than I would say, when you talk about Wall Street these days, and maybe this is not a good answer to your question, but, when you talk about Wall Street, we're not only talking about proprietary trading or the financial side of their business, but also talking about the commercial-banking side of their business.

And, my impression was that we saw some fairly significant deterioration in margins on the commercial-banking side.

And there -- you know, even though the stock market did well, and the bond market did okay, there wasn't really much on the proprietary-trading side of things.

So, I don't -- I really don't know the answer to that question, and I'm just sort of flopping around here, as you can tell.

I'll try to get you a better -- a better answer and send it to you.

But that's -- that's -- it's a good question, and a tough question to answer.

MARY BETH LABATE: Yeah, we've been puzzling over it too, so --

HUGH JOHNSON: Yeah, it's not -- it doesn't -- it's not obvious, but -- it's not obvious.

It's, just, none of their businesses really did particularly -- particularly well.

MARY BETH LABATE: Well, thank you for that.

Anything else?

Okay, we'll move on.

I believe, Jason is on the phone, the Federal Reserve, is, hopefully, on the phone.

And I know he has time constraints, so, Jason, are you with us?

JASON BRAM: I am. Can you hear me okay?

MARY BETH LABATE: Yes.

JASON BRAM: Great.

Okay, I'm going to try to go pretty fast, to leave time for Ronnie's presentation.

So, I'm Jason Bram, with the Federal Reserve Bank of New York.

I should preface this by saying that the views I express are mine, and do not necessarily represent the views of the Federal Reserve Bank of New York or the Federal Reserve system.

And, I assume everyone has the chart package, so I'm just going to go through that kind of quickly.

First, I'm going to look mostly at employment trends, and take a quick look at housing.

And I know Ronnie will fill in more on housing, and especially on wages, which I'm not really going to talk specifically about.

So in the first chart, what we've done, is we've just looked at trends in private-sector employment. They're all indexed to the beginning of the recession at the end of 2007.

And, so, when the index is at, you know, 104, it means that things are -- employment is 4 percent higher than it was at the start of the recession.

So, basically, New York, and the city, the state, upstate...all of New York, some milder job losses than the nation during the recession.

And, as Mary Beth noted earlier, the -- there's lots of variation in strength across New York State.

So you can see that, New York City is going gang-busters, it recovered quickly, and it's continued to grow rapidly; where, upstate, and especially parts of Upstate New York, have lagged the U.S. somewhat.

And then if you go to the next chart, you can see a little more that Upstate New York itself is mixed.

I was going to try to put all the metro areas on here, but it just looked too crowded, so I put Buffalo on here, which is nice, because Buffalo seems to be -- a lot of people seem to be talking about it.

But I'll just say that Buffalo is kind of representative of what's going on in both Buffalo and Rochester. They're kind of doing okay. They've reversed all the job losses from the recession and they're growing at a moderate pace.

Albany and Ithaca are going gang-busters, not quite like New York City, but, are definitely ahead of Buffalo, and ahead of upstate as a whole.

And then you have, Binghamton, Syracuse, Elmira, and Utica-Rome have been lagging. They haven't really reversed the job losses that we saw during the recession.

And you can see here, Long Island, you know, also fueled, in part, by New York City, is doing moderately well, still ahead of the U.S.

The next chart looks at, we have two business surveys.

We have a survey of New York State manufacturers; and a survey of service firms throughout the district, but mostly in New York State.

The diffusion index is -- it's really quite a simple index. It's the difference between the number of firms saying business is growing, versus business is shrinking.

So when it's above zero, then the growing firms are outnumbering the shrinking firms. This is over periods of a month, so it kind of jumps around a little.

What you see is, that the -- these indexes have mostly been above zero, in positive territory, kind of at the same levels that we saw before the recession and right after the recession.

So, things are in a growth mode.

We tend to keep an eye on this because, when it goes below zero, we get a little bit nervous, and it sort of acts as yellow flag.

And you can see that the service-sector survey, which is the blue -- oh, it might not be in color on yours, but, it's the line that is kind of down at the zero axis in February, is the service-sector survey.

We're not too concerned about it. One of the things, you know, that could be affecting it is weather.

And you see that, in early 2014, when we've the a lot of snow, and especially in late 2012, you can see the thing plunged well below zero. Late 2012, of course, was "Sandy."

So we're not too concerned about that, but it's something that we like to watch. And we're expecting, and hoping, it to rebound in March and the months ahead.

So, anyway, these are just indicators that we like to watch because they're very, very timely.

Now, to switch gears a little, let's look at a few key industries.

We've been talking a little bit about Wall Street and the securities industry.

And, this is a chart that I've been showing for a while.

And, before this recession, I used to show it to say, you see whatever the securities industry does is what the rest of New York does.

So when the securities industry turns up, when it's doing well, then New York City's typically growing.

So that's the left scale, it's the blue line. I don't know if it's in color, but it should be the darker line in black-and-white.

And each up-and-down cycle, the securities industry tends to precede or lead total employment by a bit.

And you can see that during the recent experience, basically, the securities-industry employment has done nothing. It's been flat. It fell quite a bit during the recession, and it's been flat. And everything else has been going -- not everything else, but, everything else, as a whole, has been going gang-busters.

And, it's really kind of surprising because it's never happened in New York City. We've never had a period in New York City where the city has done really quite well when the securities industry has been a lagered.

And then the next graph just kind of zeroes in a little bit more on the recent periods, so, you just sort of get a closer look at what's been going on lately.

So, if the securities industry isn't driving it, what is?

So the next page is a big table of numbers.

Without going through all the numbers, I'm just going to highlight a few things.

First, on the bottom line, you can see what you saw in the first charts; is that, total employment, New York City is doing better than upstate, and, in part, on par, at least over the last year, with the nation.

But, when you look at the individual

industries that are leading things, you can see financial activities is kind of sluggish.

But you see that industries, like professional business services, leisure and hospitality, education, and health, and, to some extent, retail trade, at least for New York City, but even for New York State as a whole, tend to be doing better than the others.

And what some of these industries have in common, which is a concern, is that, obviously, the finance sector is a very high-wage industry. And, obviously, leisure and hospitality and retail tend to be very low-wage industries.

But what I think goes unrecognized often, is that within -- and, again, I didn't want to get into too much detail in this little table, but, within the professional-business-services sector, and even within the information sector which, as a whole, is falling, you have pockets of tremendous strength in, what I would call, information technology, high-tech industries, things like Internet publishing, computer-systems design, these are areas where growth is really doing very well in New York City and in New York State.

And it is something that we're looking into more.

Maybe -- I don't want to dwell on it too much, but, it's also a source of very-high-paying jobs.

We looked at series -- a group of what we considered to be high-tech industries in New York City, and even at the national level, they pay over $100,000 per year, on average.

So, this is kind of a counterpoint to what we're seeing a lot, which is also growth in lower-wage industries.

So it is a mix.

And the technology sector I think is something that is hard to watch, because it's scattered through different industries, but is important to watch.

And I'll just wrap up.

I know Ronnie has some more detailed charts on New York City home prices.

But, this is a -- Core Logic, they do a house-price index that's based on repeat sales, so, it's not really affected by changes in the mix. You know, if all the houses, one month, happen to sell in a nice neighborhood, you don't want, you know, it affects the median price.

So, you can see that U.S. home prices fell an awful lot during the housing bust, and up as late as 2012. And they've certainly recovered, but they're not back to where they were.

New York City metro, they're -- and probably New York City is doing better as the metro, as a whole, they have recovered.

And in upstate, which I think is really quite interesting, upstate didn't have a big housing boom, bubble, whatever you want to call it, from 2000 to 2007, but it also didn't have much of a bust at all. And it's now growing at, you know, about 3 percent, home prices.

This is in places that we've been talking about, like Buffalo, and even Rochester, and even some of the cities that are not doing that well in job growth.

So, you know, you see, at least housing markets in New York State, seem to be doing pretty well.

And, I think I'll just wrap it up there, but I'll be happy to take questions, if there are any.

MARY BETH LABATE: Thank you, Jason.

Any questions?

Okay.

Thank you very much.

Why don't we move on to Ronnie Lowenstein.

RONNIE LOWENSTEIN: Thank you very much.

And thank you, Jason, for giving me enough time.

JASON BRAM: You're welcome.

Good luck.

RONNIE LOWENSTEIN: I'm going to be doing something different, looking strictly at New York City, which is what our agency is charged to do; specifically focusing in on employment and wages and housing.

Most of it's historical, but, I've included some portions of our upcoming forecasts, which is coming out later, I guess, midweek next week, and may well be subject to change since we haven't quite pinned it down yet.

What I would like do is start with just some perspective on just how strong the current expansion has been.

So if you turn to the first page in your packet, what I've given you here is a look a job growth over the last three expansions.

The vertical axis shows the cumulative increase in employment. The horizontal axis shows you years.

And if you look at the first line, which is the red line on top, that's the most recent recovery.

And if you look down from the very top of that line, to the horizontal axis, you can see that in the, roughly, five years that the city's economy has been expanding, it's gained about 12 percent -- the number -- well, jobs have increased by about 12 percent.

That's extraordinary; and you know -- you can tell that it's extraordinary [unintelligible] you're looking down.

So if you just come down from that 12 percent, you look at the recovery from the 2002 recession, and you can see that, first of all, that recovery didn't make it five years.

But when it finally ended, employment had increased by just 8 percent.

And even in the very, very long recovery we saw after the very deep '90-'91 downturn, at the 5-year mark, employment growth was just 7 percent.

So that gives you, you know, a visual chart to just how strong the recovery in the city has been.

If I had done this same chart on the basis of wages, it wouldn't look nearly as good, because what we've seen is really strong growth in employment, but not nearly as strong in wages.

Continuing on with the good news on employment, turn the page, we're continuing to see strong employment growth.

Based on the numbers that are currently available, New York City added more than 86,000 jobs in 2014. That's the fourth straight year of 80-plus-thousand job gains.

We've gained three times as many jobs in -- during the recovery as we lost during the downturn.

Moreover, we're going to be seeing revisions to this number probably within next the two weeks.

And, based upon our partial look at those revisions, we expect that employment growth through 2014 could well now top 100,000. And if it does, it will be a record for the city since these records started being kept in 1950.

At the same time, the city's rate of unemployment, particularly over the last year and a half or so has fallen sharply. In fact, it's fallen 2 1/2 percentage points over the last 16 months.

Jim mentioned the importance of labor-force participation.

For the longest time, the city's -- even though we were growing jobs, the city's unemployment rate really wasn't going down very much because our labor-force participation has continued to rise.

People were coming into the labor market, and when they come into the labor market looking for work, they're counted as unemployed.

But, now, despite the fact that labor-force participation is continuing to rise, we've seen a 2 1/2 percentage-point drop in the unemployment rate over the 16 months, which has been really good news.

Yes, there are other rates to look at, but, for the most commonly cited rate, it's good news.

IBO is projecting, at least as of this moment, that robust job growth will continue in 2015 and 2016. And right now, we're looking at gains of 83,000 for the current year, and 80,000 for 2016. And that's taking the revisions we're expecting into account.

Okay, so really good news on employment.

Wages, not quite as good.

Next page looks at average wages, adjusted for inflation, and they've recovered far more slowly than employment.

The first line looks at jobs in all sectors, and I've just put in some years, not all of them, but you can see, looking at the very top line, that average wages, after adjusting for inflation, are still somewhat shy of their peak in 2007.

They did grow fairly strongly in 2014, but definitely shy of the peak; and that's largely because security sector where the wages are so much higher is still well short of what it was at the peak, although, securities industry, in terms of average real wage growth, also had a reasonably good year last year.

Most important, if you look at all other sectors; so, everything other than securities, everything else regained average wages in 2011, so, they came back to their peak levels.

You know, '12 and '13 weren't good years particularly, but, in 2014 we've seen 3 percent growth.

So, we're finally beginning to see, putting securities industry aside, some real wage growth. And I think that's going to be very welcome in terms of the city economy strengthening.

Moving along to the next page, the next

two pages are a little bit harder to read, so I'm going to take a minute to just go over what these stack-bar charts show you.

They look at employment and aggregate wage growth, not average wage growth, but total wage growth by industry.

I've excluded a number of industries, not because they don't have large numbers of people in them necessarily, but because they didn't necessarily contribute much to growth over the last few years.

So, I'm focusing on what changed in terms of growth of both employment and wages.

The industries that we're looking at are shown on the first column; starts with "Professional and Business Services," and goes down to "Information."

The next two groups of bars show share of employment growth, on the left; and share of aggregate real wage growth, on the right.

And within each of them, on the first chart, you can see, on the right-hand side, the most current expansion; and on the left-hand side, the expansion before that.

So, easiest to do is take an example.

Look at the first two sets of bars. You can see the professional and business services, and education, and health, accounted for a very large share of total job growth in both the most recent expansion and the expansion before that.

In contrast, if you go on to look at leisure and hospitality and trade, what we're seeing is, more, a greater share of job growth attributable to leisure and hospitality and trade in the current recovery than we saw in last one.

And that makes sense, because if you think about how tourism has increased in the recent recovery, lots more people are coming into this -- these fields. And, it's been pointed out they're not particularly well-paying fields, but they've definitely been bolstered by tourism. And more job growth has been attributable to these industries this recovery than to last.

It's also worth taking a look at the securities industry, it always is, and you can see that, in the previous expansion, 9 percent of total job growth was attributable to securities. And in the most recent expansion, none of the job growth was attributable to securities, because securities industry declined.

That seems to be changing. And we expect that with the benchmark revisions coming out, we'll be seeing some positive numbers for last year.

But, in general, you know, they haven't added jobs.

And, similarly, if you look at construction, very big role in the previous recovery, and very little impact at all on the current one.

The story changes somewhat if you look at the shares of aggregate real wage growth.

And, the most striking thing to look at is that purple bar midway down, that's the securities industry. And between 2003 and 2008, the securities industry alone, without the rest of the financial industry, was responsible for more than half of the total increase in wages and salaries during the expansion.

That's amazing.

If you put in the rest of the financial industries, it's over 60 percent.

In contrast, for the most recent expansion, it's all of 11 percent.

Huge change.

I mean, it's still a significant percent because these jobs pay very well, but nothing like what we've seen in the past.

I think it's also worth going down to the bottom bar and looking at Information.

With less -- with securities contributing less to wage growth, everybody else is contributing more to wage growth.

And one of industries that's now the sufficient size to contribute more to wage growth is the information sector, which, like professional and business services, has a high component of tech jobs within it.

So, you know, we're seeing more -- more of both employment growth and income growth attributable to tech.

If you flip to the next chart, it's the same basic format as the other one, but this time around what I'm doing, is comparing the most recent expansion, on the left side of each bar, to our forecast, which is on the right side of each bar.

And here, again, professional and business services, education, and health are still, by far, the biggest contributors to employment growth.

But, we're expecting that the share of employment growth due to leisure and hospitality and to trade is going to decline from what it did.

So in our forecast, leisure and hospitality is expected to contribute 16 percent of all employment growth over the next two years; trade, 11 percent. And those numbers are down considerably from what we had seen throughout the rest of the expansion.

That's because we're expecting the strong dollar to have an impact on tourism, in a couple of different ways.

Certainly, discouraging more European tourists from coming here, but at the same time, perhaps encouraging more domestic tourists who would have otherwise come to New York City, but decide to go to London or Barcelona instead.

Why they would want to do that is unclear to me, but, expect it to happen.

Securities industry, we're finally expecting them to resume hiring, but not by a lot. And, you know, small impacts from the other -- the other sectors.

Once again, going to the right, and looking at shares of aggregate wage growth, this is a very different securities industry than we've seen in the past.

We're still expecting the securities industry to have a significant contribution to total wage growth, but it's going to be more on the order of 9 percent, as opposed to 50 percent which is what we've seen in some past expansions.

Okay, taking a closer look at Wall Street, and I can tell you what's happened, although I don't necessarily have good answers for why it's happened this way.

What you're looking at in the top part of the chart is revenues and expenses.

Revenues are in blue, expenses are in red.

And I should note that these are all for New York State -- I'm sorry, New York Stock Exchange member firms, which is just a subset of the securities industry, but acts as a good bellwether for what the rest of industry is doing.

Looking first at revenues, the blue bars, you can see that revenues are about half of what they were at the peak, which is definitely not good news.

We've been assuming, although we have no proof for any of this, that tighter regulations, and especially limits on proprietary trading, are, in part, responsible.

But, we don't have firm answers on that.

But, fortunately for the industry, you can see that expenses have been almost commensurately lower in recent years.

That's because interest costs have been so low.

You know, obviously, that's going to change; and when it changes, what happens here is an open question.

So the difference between revenues and the expenses is, of course, profits. And you can see those charted in the bottom part of the graph.

And you can see the profits have been in the $15 billion range for New York Stock Exchange member firms for the last couple of years. We're expecting it to stay in that range for this year.

We don't have the last quarter yet, and for next year.

But, I think there's a real question of whether -- as interest rates inevitably rise, whether the securities industry will find new revenue sources to increase commensurately and to keep profits at that level.

So, there's some real downside risk here.

Okay, moving on to real estate, I start with commercial real estate.

And commercial real estate, for those of you who recall what happened, the market for commercial real estate, effectively, collapsed in the midst of the financial crisis and the subsequent recession.

The orange bars in the chart are commercial sales in billions of dollars.

They plunged from 74 billion in 2007, to a low of 15 billion in 2009.

And, somehow, they've managed to come up to 64 billion, the second-highest level in 2014.

That's an estimate.

That's an extraordinary bounce-back.

I think many of us would have argued that the $74 billion level was unsustainable, and that there was a bubble involved here.

It's harder to say it's unsustainable if it's happening again, so we'll see what occurs there.

But at this point, at least, there doesn't seem to be any waning of interest in the sale of commercial buildings, particularly in Manhattan.

The number of sales, the number of commercial transactions, for very large transactions, which are buildings over 100 million, is charted in the blue line.

You know, so -- you can see clearly that the dollars are being driven by these very large commercial transactions.

There are a little over 100 of them, we estimate, in 2014.

We certainly didn't expect to see anything like that again, and here it is. And, that's a huge risk to the forecast as well.

Moving on to residential, not nearly as exciting.

If you look to the right where the charts are, the first chart is just Manhattan.

The top part of the chart shows median sales prices for Manhattan co-ops and condos.

There aren't enough single-family homes in Manhattan to allow us to do the repeat-sales index.

On the bottom, you have sales volume again for Manhattan co-ops and condos.

The real action is in the condos. And, yes, they declined after the downturn, but then, in the last couple of years, have skyrocketed.

That sharp increase has been due to the very top end of the market, and it has been dominated by this luxury development.

If you look to the bottom part of the chart, which shows sales volume, condos are in the same blue.

And you can see the volume is -- there are relatively few sales, and that was because there were relatively few of these high-end condos coming onto the market, which is part of what induced the frenzy that we saw.

I think there are a lot of other things going on, particularly international, that have fueled it as well.

But, it seems likely that with more scheduled to -- more high-end condos scheduled to come online in the next few years, that we may not see the same sharp increases in price of condos as we've seen over the last two.

Things have been way calmer in the co-op market.

I have a co-op. It's appreciated in value somewhat, not a whole lot.

And if you look at the volume of sales, down on to the bottom part of the chart, you'll see that the volume is actually still significantly below the 2004 peak.

Some of that has been substitution between people who would have bought co-ops now buying condos, but some of it is the fact that, you know, this is largely a resale market and it hasn't been nearly as frenzied.

Looking at the outer boroughs, which I don't often look at, but is really important, there aren't that many co-ops and condos out there, but there are a lot of one-, two-, and three-family homes, many more than there are co-ops and condos in Manhattan.

And if you look just at prices, you think things are pretty good.

Prices have been -- for one-, two-, and three-family homes have been rising relatively slowly, but, rising.

And -- but they still remain about 8 percent below the peak.

Okay, but then you get a really different story when look at sales volume.

And if you look at one-, two-, three-family-homes sales volumes, sales volume is about one-half of what it was in the peak, which was, again, about 2004.

So that market really has not bounced back, and that's a real issue for the many New Yorkers -- many more New Yorkers who are in the outer boroughs rather than in Manhattan.

Let me just finish by saying something about risks.

I agree that there are both downside risks and upside potential.

I would put securities into both categories.

The downside risk is, as interest rates rise, they've got to find ways to bolster revenues in order to keep profits even at the okay levels they've been over the last few years.

But, I would never count the securities industry out.

I've been at this long enough to know that we've counted them out many times, and, somehow, they always managed to bounce back.

And I would not bet against them this time.

Other downside risks:

Obviously, tourism, to the extent the stronger dollar leads to fewer foreign tourists and more U.S. domestic tourists choosing to go elsewhere.

And I think another major downside risk is whether the fed will successfully engineer a soft landing, and I don't think we can assume that that's a given.

In terms of upside potential:

GDP growth we think could genuinely be higher than what the consensus is at the moment. It could be lower, but it could be higher as well.

And, we have under-- you know, based upon the numbers we expect to come out next week, we definitely undershot on our employment forecast.

And, it's entirely possible we will do so again.

So, I think the risks are pretty much balanced, but the forecast for this city, given the positive forecast for the U.S., looks pretty good going ahead.

Thank you.

MARY BETH LABATE: Thank you, Ronnie.

Any questions?

Yeah.

SENATOR DEFRANCISCO: It sounds like a pretty upbeat report for the city of New York.

Can I translate that into the conclusion that you need less State aid than you've gotten?

[Laughter.]

RONNIE LOWENSTEIN: As a New Yorker -- as a New York Citier, I would never say that.

MARY BETH LABATE: Nice try, though.

RONNIE LOWENSTEIN: Good try.

MARY BETH LABATE: Okay, anything else?

Okay, well, I want to thank all of our

presenters today.

I have been told that this is our 20th Consensus Conference. Let's hope it's another successful one.

We look forward to working with you all over the next few days to come up with the consensus number, and thank you for your expert opinions.

SENATOR DEFRANCISCO: Ditto.

MARY BETH LABATE: Have a nice evening, everyone.

(Whereupon, at approximately 5:21 p.m., the 2015 Economic and Revenue Consensus Forecasting Conference concluded, and adjourned.)

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