NEW YORK STATE

2014 ECONOMIC AND REVENUE
CONSENSUS FORECASTING CONFERENCE

State Capitol, Room 124
Albany, New York

February 26, 2014
1:30 p.m. to 3:30 p.m.

PANEL PRESENT:

Robert L. Megna, Panel Leader
Budget Director, NYS Division of Budget

Robert Ward
Deputy Comptroller, NYS Office of the Comptroller

Senator John DeFrancisco
Chairman, Senate Finance Committee

Senator Liz Krueger
Ranking Member, Senate Finance Committee

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

Assemblyman Herman Farrell
Chairman of the Assembly Ways and Means Committee

Assemblyman Robert Oaks
Ranking Member, Assembly Ways and Means Committee

PRESENTERS:	PAGE	QUESTIONS
Hugh Johnson Chairman and Chief Investment Officer Hugh Johnson Advisors, LLC	15	
Chris Varvares Senior Managing Director Macroeconomic Advisers	37	
James Diffley Senior Director U.S. Regional Economics IHS Global Insight	61	80
Jason Bram Research Officer Federal Reserve Bank of New York	81	
Ronnie Lowenstein Director NYC Independent Budget Office	99	

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ROBERT L. MEGNA: [Inaudible], especially this time of year, I know, is incredibly valuable.

I'd like to open up the Economic and Revenue Consensus Forecasting Conference for 2014.

I'd like to make some very, very short remarks, but before I do that, let's introduce the panel.

We have Senator John DeFrancisco, who's the Chairman of the Senate Finance Committee;

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

We have Assemblyman Herman Farrell, Chairman of the Assembly Ways and Means Committee;

Senator Liz Krueger, Ranking Member of the Senate Finance Committee;

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

And, last, but not least, Robert Ward, who is the Deputy Comptroller.

Again, I'll do some very brief remarks, and I would expect each of the panel members will want to give some opening remarks.

Actually, we've lived, all of us, including the panel members, have lived through an

extraordinarily difficult period for the past three or four years.

And, 2013, I guess, we started to see some light at the end of the tunnel.

The U.S. economy grew over 3 percent.

8 1/2 million private-sector jobs have been created since early 2010. A half a million of those have been in New York.

The national unemployment rate fell to 6.6 in January, the lowest level since 2008, October.

And the state unemployment rate is at its lowest level since January of 2009.

The housing market is also on the mend. Almost 4 trillion in real-estate wealth has been recovered since the third quarter of 2011. Median and existing values are up 26 percent.

And, the state was never as adversely impacted in the housing market, but, we're still doing better. The state's number, a fraction of underwater homes, has fallen by 30 percent since 2012.

Indeed, not only has the state's real-estate market staged a healthy recovery, but, in fact, New York City's condo and co-op purchases rose to their highest level in more than 25 years, at the

end of last year.

It's always, I feel, especially given my job title, to focus on risk.

And, we must remind ourselves significant risks remain, a fact that Mother Nature has made abundantly clear in the past few years.

The current economy, while strengthening a little bit, is the weakest of the post-war era.

The labor and housing markets are in their best shape since the start of the recovery, but, the recovery has certainly not been a smooth one, as everyone here knows.

For New York, the greatest risks still lie with future actions of the Federal Reserve, which is why we're always glad Jason's here.

As the nation's financial capital, financial-market volatility poses a particularly large degree of uncertainty in New York.

Recent events have demonstrated how sensitive markets can be to shifting expectations.

Federal Reserve policy and resulting market reactions are likely to have a large impact on the state economy, larger than for the nation as a whole.

In addition, the finance industry -- finance

and insurance industry continues to restructure.

Since the third quarter of 2011, the state's finance and insurance sector has shed more than 8,000 jobs.

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

Has been in the past.

Wall Street firms have been altering their executive-compensation practices -- and, again, I would be interested in what the panel thinks -- in response to regulations that are still being written, excuse me, 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.

These changes, while necessary, have challenged our forecasting models in ways that we are still trying to figure out.

This is exactly the right forum for acknowledging that added uncertainty in our income and revenue projections.

Another feature of uncertainty in the market

that has made us uncertain is changes in federal tax policy.

As we all know, the federal tax regime changed in fiscal 2013 for high-income tax earners, resulting in a very radical change in the pattern of tax payments. We observed that shifting in real time, in late 2012 and early 2013.

Taxpayers respond to tax-rate changes in ways that are not easily observable, such as realization of capital gains and partnership and dividend distribution.

These changes have continued to affect collections up to today.

Under these circumstances, we need to be particularly careful not to misinterpret transitory receipts with underlying base growth.

Nevertheless, there's much positive news.

The state has labor market remains strong. We added 133,00 jobs since the third quarter of 2012.

We remain a tourist mecca in New York, drawing visitors from all over the world.

The state's business-services industry serve a growing global market. Our real-estate and construction sectors are leading the nation.

So, we look forward to brighter days ahead. Our optimism is tempered with caution.

At some point down the road, the current environment of low-interest rates and easy access to capital will come to an end.

The national unemployment rate has fallen more quickly than the Federal Reserve's forecast. As a result, that day could come sooner than we think.

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

It is against this backdrop of uncertainty we embark upon revenue consensus.

It's 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 our revenue base.

The logical conclusion is, that we will take -- need to take the types of tough, responsible, necessary actions that are in place in the executive budget, on both the revenue and spending side.

For three years, we have worked together to enact on-time fiscally responsible budgets that embrace the principle 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 have reduced the need to engage in overly aggressive revenue projections.

All parties deserve credit for this responsible budget-making.

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

Looking ahead, I know that we are all committed to meeting the March 1st statutory deadline for revenue agreement.

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

And, I have talked way too long, so now I'm going to turn it over to Senator DeFrancisco.

SENATOR DeFRANCISCO: Thank you, Bob.

Now I have absolutely nothing to say, because, basically, everyone knows why we're here.

And why I'm specifically here, is I want to hear the experts, as to what they have to say about the economy, heading into the rest of this year, and also into next fiscal year.

What's really significant, I think, here today, are two things:

Number one, that we're here, and when we're here, well in time to reach a consensus by the scheduled date, as was set in the 2007 Budget Reform Act, which will put us in an excellent position to do the discussions that we have to have, and, come up with a budget in a timely fashion, and a good budget, for the state of New York.

So, I'm looking forward to continuing that trend; listening to what you have to say. I may have a question now and then, if I understand what you're saying.

If I don't, I'll look like I do. I'll nod my head frequently.

[Laughter.]

SENATOR DeFRANCISCO: So, with that said, I look forward to what you have to say, and

I respect each of your opinions on the most important issue; namely, What revenues will there be, likely, in arriving at our budget?

Thank you.

ROBERT L. MEGNA: Assemblyman Farrell.

ASSEMBLYMAN FARRELL, JR.: Thank you.

I'm pleased to be here today.

The Ways and Means Committee staff forecasts a slow but steady improvement in employments and personal income in 2014 and 2015 for both the nation and the state.

So, I look forward to hearing the panelists' thoughts on the economic outlook of both the state and nation, with a particular focus on your views about the outlook for New York State's economy, and the risk we face going forward.

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

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

ROBERT L. MEGNA: Senator Valesky.

SENATOR VALESKY: Yes, thank you, Director Megna.

I'm just gonna share a very brief statement

with our guests today, on behalf of the Independent Democratic Conference, and its leader, Senator Jeff Klein.

The national and state economy has continued to stabilize in the aftermath of the Great Recession, but there is still uncertainty as to how widespread the recovery in New York State will ultimately be.

While corporate profits are at record levels, employment in the state has barely reached pre-recession levels, and wage growth has remained weak.

This slow economic recovery, coupled with the exorbitant costs of everyday life in New York, continue to present a challenge to working New Yorkers.

The IDC believes that this is a persistent problem that requires the State's attention.

It's also important to remember the broader context in which we are working, because there are still many risks that threaten the state's economy -- or, its economic recovery, rather.

New York's role in the national economy means that disruptions at the national and global levels can have immediate impacts on New York.

Therefore, today's discussion will be crucial in assessing the realities of our economic situation, so that we can develop an understanding of how best to move forward and to face our challenges.

The consensus that I am confident we will reach will lay the foundation for passing an on-time budget, that will allow the state economy to continue growing, and will enable New York's working families to prosper.

I'm eager to begin laying the groundwork for that process.

Thank you.

ROBERT L. MEGNA: Thank you, Senator.

Senator Krueger.

SENATOR KRUEGER: Just looking forward to everybody's analysis, and hope that it will help us get to a right-size budget, and a timely budget.

Thank you.

ROBERT L. MEGNA: Thank you, Senator.

Assemblyman Oaks.

ASSEMBLYMAN OAKS: Yes, thank you.

I really think, as the Assembly Minority looked at revenue possibilities, we were extremely close to the Governor, both being a little under

this year, and a little over next year, but, probably as close as we've ever been.

But I think, as Budget Director Megna's comments about tax policy, at the federal level and the state level, impacts individuals, and how they pay their taxes, and how they come in.

Businesses as well are affected by that; and, so, I think that consistent tax policies, so that they can make their decisions to move ahead, is critical.

And, so, we're looking forward to hearing where we are, but, also, hearing how we can help to get us faster to where we want to be.

Thank you.

ROBERT L. MEGNA: Thank you.

Bob, do you have some comments?

ROBERT B. WARD: Yeah, but just briefly, Bob. Thank you.

The Comptroller issued his analysis of the executive budget earlier this week, and in association with that, made the observation that the state is at its best fiscal position in years.

And I think most people would agree with that.

Clearly, an important part of getting the

state to that position is the work that the Governor and the Legislature have done together, to take an appropriately careful approach to the balance of revenues and expenditures in recent years.

And, we know that today's observations from the experts, who are here to give us their insights, will be playing an important role in helping to make sure that that continues.

So, we thank you folks for joining us, and look forward to your insights.

ROBERT L. MEGNA: Thanks very much.

And without further ado, why don't we turn it over to Hugh Johnson, of Hugh Johnson Advisors.

HUGH JOHNSON: Thank you very much.

I'm proud to be here. I appreciate being invited back to be part of this -- part of this process.

I very -- see enabled associates on this side of the table, as well as yourselves. Nice to see you again.

Hopefully, that I can make some comments on the [unintelligible]. And, also, be somewhat helpful in some of the comments that I'm going to be making.

The -- you know, Bob made -- well,

Mr. Budget Director -- I'm not sure what the right way of addressing you, or him, is -- but, made some great comments about the success of both the national and the state economy since 2010.

And, indeed, that there's been some considerable accomplishments.

I think it's important, simply to point out, and this is, maybe not as valuable as it sounds, but, that the average duration of the ten previous post-war -- uhm, post-war bull-market economic recoveries was 57.1 months. The average magnitude of the ten prior bull markets, 126.5 percent.

And we are currently -- we're, currently, just about to finish the fifth year, with the 60th month. And the bull market, of course, is 156.4 percent, compared to, again, that average of 126.5.

So it may be that the most important question, or contribution, that this group can make -- especially because looking backwards is not what we're trying to do; we're trying to look forward -- is to be able to identify when the current bull-market economic recovery, interest-rate rise, or cycle, is gonna end, or in the -- as I've said to the Assembly group on occasion, is the

immortal words of Gerald Ford, the American President, his answer to Yogi Berra, "As the pendulum has now come full circle."

[Laughter.]

HUGH JOHNSON: But that really, to me, is -- is -- it's probably the second most-important question.

The most important question being: How do we -- whether we deal with this issue of the haves and the have-nots of the employment conditions.

But, certainly, helping to identify if we're at, or even near, the end of this cycle, because that's gonna change everything.

It's gonna change everything in all of your numbers. It's gonna change, certainly, your revenue forecast.

So, that, if we can shed any light on that, it would be very helpful.

What I ordinarily do -- and, incidentally, there's a very strong consensus. I've looked at these numbers on the one-pager, and I'm almost thinking about Senator DeFrancisco's comment, that we want to try to reach a consensus. And I'm almost inclined to be extremely brief, and say: There it is; take the averages and use those.

But it's -- it's -- life's not that simple, and I usually try to talk a little bit more than that, or shed a little bit of light.

Now, let me just say, first of all, in starting out: The way I have approached this in the past, and the way I have generally approached the whole process of forecasting, is to -- first, to try to look at the most important trends that are unfolding in the financial markets.

What is the message of the trends that are unfolding in the financial markets?

And then to try to reconcile those trends with trends that are unfolding in important monetary and economic variables, hopefully, to answer the question: Where we are in the cycle, or do we have further to go in the current cycle?

As I have given you a handout, and I'm not going to labor through the handout. You can look at this later if you're interested.

And in the first part, it sort of summarizes my conclusions or findings on that issue, or those -- that issue, which consists of two parts.

I've divided financial-market performance into the third quarter and fourth quarter of last year, as well as year-to-date this year.

And it's important just to note that there has been a change in financial-market performance; whereas, the performance in the third and fourth quarter -- or, there has been a change, and not a major change -- but, in the third and fourth quarter, the performance of the markets.

And when I say "the performance of the markets," I mean the performance of the equity markets, sectors, stocks with different capitalizations, styles, fixed-income markets; meaning, quality spreads, yield curves...a lot of technical stuff.

But the performance of the financial markets last year was fairly clear that we had further to go in the current stock-market, business, interest-rate cycle.

That became a little bit unstuck in the first part of this year, where investors began to shift towards the defensive sectors of the market. You saw all sorts of things happen, such as safe sectors of the market, such as utilities and telecommunications, along with health care, performed very well.

You saw the quality spreads and the credit markets start to widen out, suggesting that

investors were at less of an appetite to take risk.

Those kinds of things happen when investors collectively believe that there may be problems ahead for the economy.

The question, of course, then is: Is this consistent with the performance of important variables, if you may, monitary and economic variables, that we've seen?

And the answer to that question is: Well, hmm, ah, the -- no.

It's still the case that monetary and the economic numbers, important numbers that I look at and everybody looks at, seemed positive, but there's no question that there's been some deterioration.

So, for example, although Federal Reserve policy is certainly very accommodative, you couldn't describe it in any stronger words, we do see things, like, bank lending continues to be positive, but, is slowing.

That's true, whether we're looking at commercial and industrial loans. And particularly true if we're looking at real-estate loans, where they're no longer expanding, but now contracting.

As a result, somewhat as a result of changing liquidity condition -- or, lending conditions,

domestic liquidity conditions have -- are still positive, but they -- they've deteriorated some.

The growth rate and the money supply, the relationship between the money supply and the growth rate of the economy, couple of technical things: again, still positive, but, not what they used to be.

And then -- and then the final thing I looked at, or we -- or some of us looked at, is the Index of Leading Economic Indicators, which continues to point upwards, or saying, essentially, that, yes, it may be the case that some of the monetary and economic numbers aren't quite as good as they were.

It's still the case, they've put it all together, that the outlook for the economy, for two thousand -- at least the next six months, and probably all of 2014 and '15, remains -- remains -- remains positive.

So I think that, what I would say is, if I put all of that together, the performance of the financial markets with the performance of the economy, from a sort of a level of 30,000 feet, I think the answer, as to what it's all -- what it's saying for us, is -- is, essentially, what I think "The Economist" magazine said for us a couple of

weeks ago, where he said -- where they basically concluded that "we're experiencing a worldwide wobble; not a tumble."

And I thought that put it about right.

And I think that's correct, and, particularly correct, since we've seen a recovery in the financial markets since, basically, the first part of February, which, essentially, is consistent with that conclusion.

Having said that, let me get to a couple of observations, looking at the numbers.

What I've included is not only the consensus forecast on the overall economy, and a lot of the variables that you really have to worry about.

I've also included my own forecast on the economy, and a lot of variables you have to worry about.

I've done that for the national economy.

I've done that for the state economy.

And I've also done something that I do somewhat cautiously; and that is, make a forecast for revenues, based on the forecast for the national economy, forecast for New York State economy -- for the New York State economy.

And all of -- everything looks particularly

good, but, let me -- and there's a lot of consistency between the forecasts that we've seen from various groups.

Let me make a couple of observations, though, that are a little bit troubling.

First of all -- and, Bob, you know, we've talked about this in the past -- I'm always talking about inflation. I'm always wrong, but I'm always talking about it.

And, what I've noticed, I -- I -- yes, there's a strong consensus about what inflation, especially the Consumer Price Index, is going to look like in 2014-'15.

1.6 percent, roughly, in 2014. 2 percent or so in 2015.

But, it's worth noting, and I just noted, is that leading indicators for inflation, which I pay pretty close attention to, are up fairly sharply over the course of the last eight months. Up 9.3 percent in the last 8 months.

And I'm sure you haven't missed the fact that we see a rise in commodity prices concurrently unfolding, and a rise in the price of gold.

A lot of this can be attributed -- or, some attributed to weather conditions; particularly the

rise in commodity prices.

I'm not so dead-sure; particularly when I see the rise in the leading indicators of inflation, of 9.3 percent, which is fairly strong, over the course of the last 8 months.

So it very well may be the case, that we're -- if we're gonna be wrong on any of these numbers, and I would have guessed, where we're gonna wrong, I would be willing to bet, it's gonna probably be on inflation, and we may be a touch low on inflation.

I've looked -- I read through all your numbers, the department budget numbers.

I've read through all the Assembly numbers as well.

And you folks know, I've talked to you about that, and this -- the work that's being done at the Department of Budget, and the Assembly, and I'm sure at the Senate as well, is just really incredibly good. I mean, it's just really good.

Policymakers in this state should be really proud of the work that you're doing. It's comprehensive. It's internally consistent with what I'm trying to -- not always, but, I generally look for.

Just a couple of comments.

And I've looked at your numbers, that you've unfortunately had -- didn't have the luxury of recent data, but published back in January, so I know there's some problems.

But, your forecast for the national economy -- now, I say "your forecast," I'm talking about the department -- Department of Budget -- is fairly subdued. It's subdued when compared to other forecasts. A little bit on the subdued side.

At the same time, when I look at your forecast for consumption, imports, personal income and wages, it acts up sort of subdued.

So, either your forecast for the economy's gotta come up a little bit -- this is all fun with numbers, it's all statistics, you know that.

Either your forecast for the national economy has to come up, or your forecasts for some of those important variables has to come down.

I try to reconcile, also, your New York State numbers, of personal income and wages, with your forecasts for employment.

Either employment forecast has to come up or your personal-income and wage numbers have to come down just a little bit.

I think I may be right on that.

Let's talk a little bit about Federal Reserve policy.

You have a fairly consensus-oriented, or benign, forecast -- well, first of all, you have a benign forecast for inflation. I've already mentioned that.

And I know your forecast for the unemployment rate was made in January, so you didn't have the benefit. And I know that's got to -- you don't see it, but I know that's got to come down, then revised.

Also looking at the January forecast, you had a real spike in short-term interest rates for 2015, which implied a very strong move; stronger than I think is generally accepted by the Federal Reserve towards restraint. Or, raising their target on the federal-funds rate from zero to 25 basis points.

The implication being, up to as high as 1 percent.

It's very hard now to judge what the Federal Reserve is gonna do, particularly when they effectively said, that even when the unemployment rate, as you know, gets to 6 1/2 percent, that's not necessarily a trigger. Even when the rate of

inflation gets to 2 percent, when the forecast for inflation gets to 2 1/2 percent, that's not necessarily a trigger.

I think that's the implication, which I think is a great move in policy: that they're getting way -- backing away from strict targets.

But it's very hard to judge what the Federal Reserve policy is gonna turn out to be, or their interest-rate policy.

I might add, that quantitative easing is not even worth talking about. It's been fully discounted by the markets.

The fed will continue to take risks. They're -- any quantitative easing, it will be all over. I've tried to demonstrate that in my work.

The markets have totally discounted it.

What really matters is Federal Reserve interest-rate policy.

As I say, it's very difficult to judge what it's gonna be, but I -- I don't -- I see, maybe, some shift towards restraint as we get to the latter part of 2014, because I see employment numbers getting better, especially growth-rated non-fund -- well, you know, the unemployment rate's gonna be below 600 percent, we know that.

And we'll start to see inflation maybe edge up a little bit.

And maybe some will move towards restraint, both second half of 2014, first half -- all four quarters of 2015, but not a significant shift in that direction.

It's hard for me to believe that this fed is gonna make a hard shift towards restraint.

So, that's important to keep in mind.

I wish I could quantify it more specifically.

I have done that in my work, but, it's very difficult to quantify.

I wanted just to add one other point, though, here, and here's where I differ from the whole world, and that's -- and I could be wrong, and I get criticized for it, but I'll just tell you; and that is: That the primary driver of both short-term interest rates -- and I think everybody agrees, the primary driver of short-term interest rates is Federal Reserve policy or interest-rate policy.

I would argue that the primary driver of longer-term interest rates is also Federal Reserve policy, or, the target for federal-funds rate.

If you look at the performance of interest rates, historically, or, if you do a statistical

analysis that tries to quantify what's gonna be the outcome, given an assumption about Federal Reserve policy for longer-term interest rates, it turns out to be much more benign than the consensus; and certainly more benign than your numbers that I looked at.

The 10-year treasury at 4 percent, in 2015, is too high. Way too high.

But -- but especially given my forecast, which is, yeah, rates should rise, but I wouldn't be at all surprised -- and here's where everybody's gonna disagree with me, but I'll say it anyway -- I don't think the yield on the 10-year treasury is gonna even get to 3 percent.

It might even get a little above 3 percent.

It's not gonna get to where the consensus is, which is three -- three -- in my view, it's not gonna get to where the consensus is.

And what I'm saying is consistent with history, and also consistent with, I think, sound statistical analysis.

Not many people agree with that.

So that's one thing.

It's -- that's a comment on Federal Reserve policy, it's a comment on interest rates. And

I would try to incorporate that a little bit into your -- into your trying to find the consensus forecast for the variables that are gonna try and drive up revenues.

The -- let me say one thing about your revenue numbers: They look great.

From my 2015, I can only do PIT, to come up with anything that I have any comfort with.

And, PIT, you look low on 2015.

Trying to think if I said calendar or fiscal, but, you look a little bit low there.

So much for that.

Okay, emerging-market crisis:

The biggest -- some think this is the biggest problem right now, are a political hurdle, or challenge or risk.

I give you some charts.

And what I like to do, is to throw -- put some charts that show a superimposed of the OECD's composite index for leading economic indicators for different countries, on the consensus forecast for the economy of that country.

And what we saw last year, was the consensus forecast for Europe coming down, and the leading indicators have turned up.

And that led me to conclude that you're gonna see, not only the numbers coming out of Europe get better, but the consensus forecast will turn the corner.

All of that's happened.

Now the question is: What does it look like for the emerging markets?

And the answer is: It's different.

India still looks like a problem.

But, China looks just about as stable as could be.

So we're talking about 7.6 percent growth in 2014. Maybe 7.4 percent growth in 2015.

And that's consistent with leading indicators for China, which are fairly flat.

Looks better, interestingly, for Brazil. Looks like Brazil might be turning the corner.

And -- and, uhm -- so, you got China, Brazil.

India is not -- not looking -- not looking good at all.

And Russia is looking good also.

Russia looks like the leading indicators there are turning positive, even though the consensus forecast is deteriorating -- continuing to deteriorate.

So I'm -- I'm -- what I'm saying is, that three out of four countries are not gonna be the problem that you see in the financial press.

Not true of India.

There still will be problems in Chile, South America, the -- South Africa, in Turkey, Indonesia, and Israel. That's where I don't see any turn right now.

That's point one.

Point two, is that even if emerging markets were to experience the kind of difficulties that you read about all the time, there's no question that that stuff gets transmitted.

It gets transmitted around the world through psychology. Markets go down, everybody gets scared, markets go down here;

Trade flows;

Capital flows;

Commodity prices.

Those are the four transmission mechanisms.

The emerging market, if you take all their economies, they're not big enough. I mean, they're substantial, and they're important. I don't mean to take away from that. But they're nowhere near what we experienced in 1997 -- '96 and '97 with the

Southeast Asia crisis.

That was very big, that was very substantial.

So, secondly, the declines in the currencies related to or associated with the current so-called "crisis" in these countries is nowhere near what you saw in '96 and '97.

The point being -- I meant '98.

The point being, is that, I think that the worries about that risk -- the emerging-market risk have been way overstated.

And I don't -- although you'd have to watch it and you have to continue to monitor it, I don't think it's gonna derail the current recovery -- bull-market economic recovery, and rise -- and, quote, rise in interest rates.

Fiscal policy: I don't have to tell you, U.S. fiscal policy should be certainly less of a drag.

Deficits are gonna continue to come down, so long as the economy recovers; particularly if the economy recovers anywhere near the consensus of this group.

And, so, fiscal policy's not gonna be the big issue.

Probably the -- New York State economy is

gonna be, as I do the numbers, is gonna map the national -- the reason we look at the national economy, is because New York State economy, I hate to tell you, but, as much as we'd like to change the outcome and make it much better than the national economy, the truth is, it really matters: the national economy.

And that's true of almost all of the variables. And I've never seen that change.

The, uhm -- the big challenge for New York State is -- and I'll just sort of say it this way: The part that bothers me, it bothers me about the national economy, it bothers me about New York State, it bothers me when I look at all the different parts of New York State, metropolitan statistical areas, is the growth of the labor force.

Yeah, the unemployment rate is coming down, and I'm sure we all look at that as being a welcomed event.

But the reason it's coming down is -- is the labor force is declining, and it's -- it's -- as I look at it, in 2014 and 2015, there are only two municipalities, two MSAs, where the labor -- growth of the labor force is gonna rise in New York State; and one is Ithaca, and one is

Glens Falls. You can explain it to me.

So, you got the unemploy- -- and, there, the unemployment rate will come down, but not as much.

The unemployment rate will come down a lot in other places, but it's primarily because of the loss of the labor force.

The loss of labor force is not -- is part, because of -- part, because of, you know, the demographics.

People that are my age drop out of the labor force, or younger. And, uhm -- but it's -- a much bigger part of it is that discouraged-worker issue.

And that's true in New York State.

That's, as you know, is a function of -- in my view, of the fundamental shift that's going on in the world economy, in the national economy particularly, driven by exponential progress in technology, which is a shift from a labor-intensive economy to a knowledge-driven economy.

That, is simply not going to go away; and it's not gonna go away for a very, very long time.

And that's going to create a bigger divide, in my view, between the haves and the have-nots.

Create -- you know, part of this, with the slow-growth unemployment, has been certainly a

result of the hangover from the financial crisis, 2005-2006. But a bigger part of it is the fundamental shift that's going on in the economy.

It's gonna put enormous policy -- pressure on policymakers: How do you deal with that?

Because there's not gonna be -- I don't believe -- I wish somebody knew -- I don't believe there's any really simple solution to it.

There's a lot that can be done, but I don't think there's any -- and that's the biggest problem I think that we, and the state of New York, face.

And I'm not dead-sure what you do.

I know some of the things you might do.

So, that's basically it.

Most important thing: A wobble, not a tumble.

When I looked at the financial markets, performance of important monetary and economic variables, I'm led to that conclusion.

Growth is gonna be a good, roughly, 2.9 in this year. 3 percent next year.

I think your primary budget is a little bit low.

I'd take a hard look at interest rates; the interest-rate forecast.

And -- and that's basically it.

I don't see the risk of emerging markets being something that you'd worry about, or you should -- is significant.

It needs to be monitored, but not -- let's not get obsessed with it or caught up in it.

Uhm -- and that's basically it.

I think this is a -- the forecast, the work that everybody has been doing, has been really great. And, fortunately, we are coming to pretty close agreement on most of these -- most of these variables.

Once again, thank you very much for being -- for inviting me to be with you.

Hi, Joe.

ROBERT L. MEGNA: Thank you, Hugh.

Any questions from the panel then?

If not, I think we'll jump right to Chris Varvares.

CHARLES VAVARES: Thanks very much.

It's a pleasure to be here, and have the opportunity to share the views of my colleagues, and myself from Macroeconomic Advisers, again.

Because there is fairly broad agreement on the big themes, with what we just heard, I think

I want to highlight a bit, say, at a fairly high level, and try to highlight some of the risks that we see to the outlook.

So there is, in your stack there, if you want to follow along, feel free.

The presentation packet, it looks like that.

So I think, as we look at this year and the couple years ahead, we begin by taking a look back.

In 2013, with growth, over the four quarters, of 2.8 percent, it was fairly impressive, given the headwinds that the economy faced.

We had huge fiscal drag from the increase in the payroll tax, as a result of the expiration of payroll-tax holiday; implementation of ACA taxes, 'and the high-income-earner tax; as well as the fact that interest rates jumped fairly significantly in the middle of the year.

So, the economy gets a hardy pat on the back for producing 2.8 percent growth last year, suggesting some amount of resilience.

Certainly, the economy carried good momentum into 2014; however, that momentum was, in part, due to a bit of an inventory cycle.

There was a bit of an excessive stock-building towards the end of last year.

We think the rates of accumulation that are unsustainable, and there will be a price to pay for that, with slower growth up front this year.

We don't view that as a fundamental thing, but it does means that manufacturing output growth is going to be fairly slow, if not stagnant, early this year.

So that's a challenge that the manufacturing sector, both in terms of output incomes and employment, will be facing.

In addition, weather does play a role in the economy.

December was unusually cold. January was unusually cold. February is turning out to be unusually cold.

An analysis that we did not too long ago suggested that the cold weather, just based on December and January, accounted for about three-tenths weaker growth in GDP in the fourth quarter of last year, and about four- to five-tenths weaker growth in GDP in the first quarter.

And a return to normal weather in February will give us about a seven-tenths contribution to growth in the second quarter.

So, therefore, just the weather effects of holding us down in Q1 -- Q4 of last year, Q1 of this year, gives us a little bit of extra momentum coming into Q2.

And I should say, that analysis did not take explicit analysis account of snow, which we know probably also had a little bit of a role in holding back the economy, certainly, early this year.

So, a little bit of a wiggle in the numbers.

And as we see the first quarter coming in a little bit soft, we see these numbers.

I think we need to take those with a large grain of salt, thinking that a lot of it is weather effects, possibly inventory cycle, and not as a sign of a more fundamental slowing in the economy.

The key, sort of, big-picture factors that we see affecting the economy are the lack of the fiscal drag that we had last year, which I alluded to with the payroll-tax increase. But, also, there was big spending restraint last year, that we're not gonna see repeated this year.

So, overall, the economy will be freed from about 1 1/2 percentage points of drag from contractionary fiscal policy.

That's the federal level.

State and local budgets, as you know, are also easing up a little bit; and, so, we'll get a little bit of a help from that increase in state and local spending this year, in contrast to what we've had the last couple of years.

Another sort of challenge that we face, however, is the rise in interest rates that we've had.

Markets are looking ahead to the date when the fed will begin to tighten policy.

I think there was some confusion about whether tapering was tightening.

Tapering is less accommodation. It's not the same thing as a turn towards tightening.

But, nevertheless, the markets did respond with a rise in interest rates, and that did have an impact in slowing some spending, especially in housing construction, and probably put a little bit of a pause in some capital-spending plans.

So we would -- we would expect that we will work through that. If the economy has enough momentum, that it's not going to push us back to 2 percent growth.

We think there's still enough underlying momentum and pent-up demand in improvement in

financial conditions that will push us to growth, closer to 3 percent than the 2 percent we've experienced the last several years.

So the two big forces: Lack of fiscal restraint. Improvement in financial conditions and building confidence.

With that, we see improvement in employment; not big, but a little.

So, last year, average monthly employment gains of the establishment survey, of about 185,000, building to about 200,000 a month this year, 2015, beyond.

So, not great, but better than where we've been.

And that will contribute to the increase in the employment-population ratio, and further declines in the unemployment rate, which, we hope, but we have very wide confidence bands around this, are going to be motivated by improvements on the employment side; not simply by declines in the labor force participation rate.

We think we're close to the bottom on that.

So in that environment where we have, still, a declining, but maybe a somewhat slower decline, in the unemployment rate, there's still a lot of slack

in the economy. And we think some of it does help put downward pressure on inflation; not a lot, but a little.

And, so, we expect inflation to remain well-contained. It is currently running very low.

Recent rates have changed on the core Personal Consumption Expenditure Price Index, running just barely above 1 percent.

We do see for the year, though, coming in around 1 1/2, one-six; rising to 1 3/4 over the next year; and getting, maybe, to 2 percent, or slightly below, all the way out through 2016.

So, inflation really not a big concern on the radar right now, remaining well-contained.

So with that, with still high unemployment, even though, as Hugh noted, following through the fed's 6 1/2 percent threshold, inflation remaining low.

And the fed has warned us, that inflation too low is just as dangerous as inflation too high.

So, the fed will remain accommodative.

We expect it will continue to taper, roughly, reducing its open-market purchases as part of QE3, by about 10 billion per meeting; meaning, that they'll be completely done sometime late in the

year.

And -- and then the question is: When will they begin to tighten the policy rate?

We recently moved up in time.

Our expectation for the first tightening, from the third quarter of 2015, to the second quarter of 2015. And, it maybe worked of out to four months, not quite six months, but somewhere in that range.

And part of it was simply because you cannot ignore the fact that, because of what happened in the last two months of the employment reports, the unemployment track is now about a half a point lower than what it was in our prior forecast.

So, if you missed -- if you missed December and January declines in the unemployment rate, and you take those into account now, it's a very different picture of the degree of labor-market tightness.

Secondly, there's an emerging body of evidence that suggests that the overall unemployment rate -- and I'm going to spin this the way -- the opposite way that you hear on CNBC: CNBC says the real unemployment rate's 15 percent.

Well, guess what?

The employment rate that matters for inflation is really the short-term unemployment rate, and it is back to its cyclical low point.

There are other measures of labor-market tightness, including this -- you may be aware of the matching of employed to vacancies, and this thing called a "vacancy yield"; that is: For any number of vacancies, how many people are hired?

When labor markets are tight from an employer's perspective, the vacancy yield is low; that is, they can't hire very many people to fill those available vacancies.

We're now back -- the vacancy yield is now back at the same level it was at the prior two peaks and cyclical -- cyclical peaks in economic activity.

So that suggests, one, there's a lot of economic -- there's a lot of uncertainty about just how tight are labor markets today.

And, so, we have to be aware of that.

And because of that, while we think inflation's gonna be low, we think there's some uncertainty about what the -- about what the inflation outlook is.

Now, hourly compensation growth has been exceptionally weak.

Last year it was only 0.4 percent, on a fourth-quarter-to-fourth-quarter basis.

This has given rise to the very slow growth of incomes that have bedeviled the revenue estimators.

And, our guess, I -- it's only a little more than a guess, that we're gonna move up towards something more normal; maybe, 2 to 2 1/2 percent growth of hourly compensation.

But given the recent track record, I think we have to put, again, very large confidence bands around the growth of that income.

But, nevertheless, inflation remaining low, perhaps too low, the fed being very cautious, tightening, narrowing, the second quarter of 2015.

I want to illustrate just a couple of charts to show.

Let's jump up to Slide 3, to show -- I'm sorry, Slide 2 --

Let me put my glasses on. I'm sorry.

-- Slide 4, let's make it.

I hate that.

[Laughter.]

CHARLES VAVARES: So you can see, in the fourth quarter of 2012 and first quarter of 2013,

this shows the change in personal tax and non-tax payments, at the federal -- at the national level, in total -- it's all personal tax and non-tax payments -- as a share of GDP.

And look at the massive jump that occurred in the first quarter of last year. That's the extent of the tax increases that we saw.

That took a big wallop by the disposable income of households, and it accounted for the very slow growth in consumer spending we saw last year.

So when we look at fiscal drag, that was the biggest part of it, were the tax increases.

It held the growth of consumer spending, last year, to 2.3 percent.

Without that same drag this year, we expect consumer spending to grow closer to 3 1/2 to 3 3/4 percent.

So the primary motivation for seeing economic growth step up in 2014, relative to last year, is the absence of those tax increases, and the acceleration of consumer spending.

If you look at the next chart, Chart 5, this is another way of looking at the waning of fiscal drag, as we like to call it.

So this chart shows both the federal and

state and local level.

The green bar is the federal, the pink bar is the state and local; the contributions of those spending components directly to GDP growth.

And, of course, you can see, over the last couple of years, those green bars have largely been strongly negative, suggesting the direct drag of declines in federal spending on economic growth.

Because we now have a budget deal that does away with the part of the sequester that was gonna cause more drag this year, we basically go to a flat line.

So we don't really have stimulus coming from federal spending, or, state and local spending, really, for that matter; but, pretty much, a flat line.

There's a little bit of a wiggle there, as you see, between the fourth quarter of last year and first quarter of this year.

There's a very large anomalous decline in defense spending, and we do expect to recoup some of that, so there's -- some of that big drag in the fourth quarter of last year we expect to be offset a little bit this year.

I think -- Slide 6 talks again about the --

focuses on the labor-market story.

You see that the decline in the labor force participation rate, a 3-percentage-point decline since the beginning of the recession, to where we are today.

Some of that would have been expected, based on the aging of the population.

So, as age groups move into the -- those -- as cohorts of the population move into those age groups, they have lower participation rates, the aggregate participation rate falls.

And that explains, roughly, one-half of the decline in the participation rate, as suggested by that dotted line there.

There's a lot of speculation.

We've done some work to suggest what explains the other half.

We think a quarter of that 3-percentage-point decline is the normal cyclical response.

And we think that last one-quarter is related to the fact that we have such persistent unemployment; that is, the percentage of long-term unemployed, those unemployed more than 26 weeks, gives them a very tenuous attachment to the labor force. It stigmatizes them.

Employers, as we know, and there have been some really nice studies done on this, employers just are unwilling to look at people who have been unemployed more than 26 weeks. They think there's something wrong with them.

Until the labor market tightens up considerably, firms will continue that behavior.

I know the White House is launching a campaign, to get firms to change their recruitment behaviors, so that they're not -- they've actually had robo -- you'll love this -- robo-processing of applications, where the people -- applications are just rejected if they determine that the person has been unemployed for that long.

Workers are fighting back, though.

They're putting in white -- in white font, key words they know HR departments search for, to put them at the top of the stack.

So the robo guys put them at the top of the stack, and the humans look at the applications and can't figure out why that person was at the top of the stack.

[Laughter.]

CHARLES VAVARES: Well, in any case, the labor force participation rate is also a bit of a

puzzle.

We expect that, with a slight pickup of employment, more consistent gains in employment, that the participation rate will, in fact, stabilize, and rise sort of sideways -- you know, rise slightly, or go sideways, over the next couple of years, suggesting, then, that further declines in the unemployment rate will only be accomplished if we see these consistent gains in employment; as is suggested by the blue line, and shows the employment-population ratio in that chart.

If you turn to Slide 7, this shows our inflation forecast with a very long history.

I show the long history here to make a couple of points.

The first is, that we -- since the late 1990s, we've really been in a -- in a relatively low and relatively stable inflation environment.

We bounced around 2 percent since that time period, well off the very high inflation of the 1970s and early 1980s.

Number one.

Number two, is that the cycle does have an impact, because slack tends to depress the rate of inflation, because there are unutilized resources in

labor and product markets, and there's competition that puts downward pressure on wages.

So our forecast, again, is that the consumer prices will remain growing probably below 2 percent between now and 2016, remaining well-contained.

I already talked about fed policy.

Let me -- let me look at -- let's jump ahead to Slide 10, where I list, again, some of the major reasons why -- that are -- that are pushing the economy to accelerate and to grow faster, with a couple other concerns listed as well, as to why we still need to be cautious.

So we have had very aggressive monetary policy. Obviously, that helps.

Early on in the recovery, we had very aggressive fiscal policy.

So, the American Recovery Reinvestment Act tended to raise government spending, it tended to put some income out in the economy, multiplier effects...those were all good.

But, it's like the pig and the python: It's good while it's going through, but on the backside, it causes spending restraint.

That, on top of the initial moves towards long-term control of federal spending, have caused

federal spending to be a reason, at least in the short term, for the economy to grow more slowly.

So that's a bit of -- one reason, in fact, why monetary policy has had to be as aggressive as it has been.

There still remains pent-up demand in the economy.

We know it's there in housing, where we've been way below the trend in housing starts.

We're way below the trend in the stock of motor vehicles.

And the question is: How quickly will that pent-up demand be realized?

Clearly, what we hear from the automakers, is that availability of credit is not an issue in purchases of motor vehicles.

Employment, is. Credit scores, are.

In housing, it's a different story.

FICO scores now, on average mortgages, are well above what they were in the pre-crisis era, and even in the lead-up to the crisis in the housing boom.

So, mortgage-underwriting standards are still exceptionally tight. And until those loosen, we think, we're afraid, that the recovery in housing is

going to be damped or delayed a bit.

I mean, we're still relatively optimistic long term on housing. Our demographic analysis, even before immigration reform, suggests that, nationally, we should be building about 1.6 million homes over the next decade.

And we're well short of that now, still under, roughly, a million.

So there's a long way to go, and there's a potential housing boom out there.

When exactly it will catch fire is hard to know because of the remaining difficulties in mortgage finance.

There have been uneven improvement in financial conditions, to be sure. Lots of evidence of this.

And this has a lot to do with a return of risk appetite, which we view as absolutely critical to getting business decision-makers to make those hiring and investment decisions.

And return-of-risk appetite only happens as assessments of downside risks are -- are mitigated.

So, early in the European crisis, as that crisis flared up, it had the effect of really putting a -- of throwing cold water on the recovery

in 2010 and 2011 again.

We seem to be getting past that. European economies are beginning to recover.

But it's critical that, as those downside risks recede, return-of-risk appetite comes in.

We see it, most clearly, in the gains in the stock market last year. And we expect that we'll see gains of about 9 percent again this year in the S&P 500.

So my number, Hugh, to compare to yours, will be year-end 2010.

2-0-1-0, on the S&P 500.

Not -- there are risks, as Hugh pointed out.

And to tell a story about that risk, at the beginning of this year, as I was looking at our forecasts of the stock market, and thinking about -- in fact, let's just go look at that "stock market" story.

This would be, Slide 17.

So this is a -- this, obviously, is a -- the reason runup has been huge in rebuilding household balance sheets, but, look how it flatlines.

So, we have another 9 percent gain this year.

A little bit of a gain in 2015, and then it sort of goes sideways.

Well, what the picture makes clear, is that the stock market never goes sideways. It either goes up or it goes down.

So, as I look at that picture, and you never know where the exact peak is gonna be, so I set myself a reminder in Outlook that pops up now, every two weeks, that says: Is it time to exit stocks?

[Laughter.]

CHARLES VAVARES: Because, I should pay attention, and, oftentimes, I completely -- I'm so busy making the forecast, I forget about the implications for my own portfolio.

So, I think there's a risk there as well, that we may have a bit of a correction in the market.

And I think we're pretty -- we're safe for a while here with the solid growth that we're anticipating.

Let me go ahead to Slide 33, because it does highlight some of the risks. And -- and because there's not all that much disagreement in the base forecast, I want to focus on those.

So there's seven bullet points here, and every one of them, like a coin, is a two-sided risk.

Europe is improving; it's coming out of

recession.

I fear, however, that all of us have become a little bit too complacent about Europe.

Italy still has not put in place the reforms that will lead it to have, even in the medium term, a sustainable fiscal outcome.

Now, we know, in the United States, we haven't put in the needed fiscal reforms to give us a long-term sustainable fiscal position, but, it's different. People kind of expect us to get around to doing the right thing, eventually.

Italy is a harder story.

And, so, it's possible that there could be another flare-up. It's possible that Greece may not be able to make good on the last round of deals that it made with the -- the -- PREO [ph.] -- I -- whatever -- the IMF, et cetera, and so there's a risk there.

On the other hand, there's a positive risk, too; and that is, the European recovery could progress a pace and could surprise us on the upside.

The rise in long-term rates in the U.S. had an effect in slowing our economy.

It also had a very important spillover to the emerging markets, as Hugh pointed out, and then

there was the rebound effect that came back to the United States.

Clearly, as Hugh believes, we think it was an overreaction.

But you just have to be cautious, and try to think about how the financial spillovers, what it did to the stock market. How that could potentially lead to some further headwinds on the U.S. economy this year.

In 1997, clearly, was very, very different than it is today.

But, I think 2008 makes us all a little more cautious about how some of these seemingly benign financial crises have a way of spinning out of control.

And, so, that makes me just very wary about some of the downside risks still to come out of the emerging-markets story.

China I don't think is a big concern, but, obviously, there are reasons to be concerned about China, given the growth of their shadow banking system, and the need to move from this hugely investment-led economy to consumer-led economy, and how they'll do that transition smoothly without it having big ripples throughout the global economy, is

certainly a risk.

Home prices, I think we're in good shape.

The consensus is for moderate increases in real-home prices over the next couple of years; however, we know some markets are already a little frothy.

And, so, there's caution there as well, as to whether we'll get the boost from home prices.

I don't think we have to worry too much any more about fiscal restraint, at least for next couple of years, with the two -- two-year deal.

So, we can maybe set that one aside.

Commodity prices, obviously, are always a wild card, subject to geopolitical concerns, and political uncertainty in the oil-producing parts of the world.

The U.S. is less vulnerable to those shocks, as we've had big increases in our oil and natural gas production. But, still, oil is something that's priced in global markets, and so we're not completely immune to those issues either.

The real wild cards that are out there are Iran and North Korea, and moves in those countries towards developing nuclear weapons, that can be very, very destabilizing to markets.

And so that, again, while it's a very, very low risk, it's out there.

And, it's one of those things, that when you least expect it, you know, would you really be that surprised if you -- six months from now, maybe the talks with Iran are not progressing very well, and, you pick up the newspaper, or you turn on the TV, and you find out that there's been some sort of an attack on an Iranian nuclear research facility?

And, what would that do to destabilize the Middle East and throw a big monkey wrench into the economy?

So, again, not a big risk, but one that would have, relatively, at least big short-lived consequences.

And, so, that's another thing that is in my "worry closet."

So, just to summarize:

We think the preconditions are largely in place for the economy to improve this year, to show firmer growth, improved employment growth, but, those risks are still out there.

They seem like this is a somewhat familiar story over the past several years: The start of the year, we're somewhat more optimistic, and something

seems to jump up and bite us.

This year, the one thing we can point to that's really, really -- we can do the math, and that's the fiscal restraint.

The absence of the fiscal restraint is the single biggest factor that's gonna lead us to have firmer growth this year, but there are all of these other things that could get in the way.

ROBERT L. MEGNA: Any questions for Chris?

Okay, thank you.

Let's move on; Mr. Diffley.

JAMES DIFFLEY: Thank you.

And let me first apologize for being late.

As Chris can tell you, I was in Washington with him the last three days.

CHARLES VAVARES: You should have taken my plane.

JAMES DIFFLEY: And I -- well, I decided to go home in between; so, my apologies.

And I'm sorry I missed the opening remarks, which are usually very good, from which I usually make some notes, and I didn't have that opportunity today.

But, I'll be available for questions afterwards, and during, if you want.

Let me summarize the forecast outlook now.

We're much more optimistic for the future than we have been for the last couple of years.

It's not so much that we've revised upward our forecast rates of growth; is that we're more confident that they'll actually be realized.

There's less uncertainty out there, largely because of what's happened in Washington. The federal government budget is at least resolved our issues, or are at least resolved for a couple of years.

So that's the basic theme we have, going forward, that go along with any presentation here.

We're on a moderate growth path. We're not accelerating that much, but we are accelerating a solid pace, as Chris went through the numbers, and you did, through the end of last year, coming forward.

The inventory accumulation, I certainly agree, will make GDP growth look a little slower in the first half of 2014, then are the underlying fundamentals which were exaggerated in the last half of 2013. But they're, nonetheless, strong.

Consumer spending reaching trend growth in real terms of 3 percent, with employment gains, and

much improved household balance sheets, as you've seen.

Home building, we agree, it will surge, and it will take -- not that fast, though. It will take until about 2016, until we get to the level which we agree, about 1.6 million housing starts per year, for instance, catching up to demand, as we say.

Business fixed investment, largely hampered by uncertainty over action in Washington, will accelerate, again, led by equipment spending.

We do have a significant increase in interest rates. I won't go through the numbers. I'll let -- I'll defer to you on that.

But, as monetary accommodation is gradually withdrawn, I think I said that in a way that Chris would agree with. Right?

And the North American energy boom will continue to create jobs investment, and, most importantly, give us, the U.S., a competitive advantage in manufacturing -- certain manufacturing sectors, particularly the chemical sector, that we haven't seen in a long time.

The next slide, Slide 3, shows real GDP growth in the unemployment rate, over time, with the unemployment rate declining at a relatively fast

clip recently, as you know -- that's the bar there, in orange -- getting under 6 percent, finally, in the very near future.

The blue bars, with the little waggle over the inventory accumulation that we saw at the end of 2013, the beginning of 2014, getting above 3 percent for a solid two years, going quarter by quarter there, which is the important part of strong.

Not as strong as we would have ever liked to see coming out of the deep recession we had; but, nonetheless, a strong, sustainable pace of growth for the U.S. economy.

And I've extended the graph out to 2017 there, as well.

On the next page, you see in real terms, our sectoral forecast with real GDP.

I think looking at the chart for 2015, at 3.3 percent, this is calendar-year basis, we're at the highest amongst the group at the table here; so, a little more bullish than, uhm -- than my colleagues, but, continuing that way until 2016.

Consumption, as I mentioned, about 3 percent.

Double-digits in residential investment are that buildup in housing starts.

I mentioned business fixed investment.

Federal government less of a drag, significantly. Chris is exactly right, about 2013 there. The tax side is the other side of that, of course.

And state and local government actually contributing to growth, going forward, slightly, in the future.

Exports -- I'll show you a graph in a minute -- need to be a very important driver of growth in the U.S., and we think will be over the coming decade.

To give some more numbers here, other key indicators that we like to follow, and you like to follow, I think, industrial production.

Payroll employment, that's a key, getting, finally, above the 2 percent range. And I'll show how we fare in terms of employment levels back before the recession.

The automobile industry has been strong. You've noticed it around Buffalo. But, that's going to level off, but, still, at a good level: over 16 million units per year in the U.S.

Housing starts you see ramping up to the 1.6-metal-unit -- -million-unit number per year.

CPI: I guess we're a little more muted on

CPI than my colleagues speaking before me. Under 2 percent for the foreseeable horizon.

Oil prices, of course, always a wild card.

Federal-funds rate moving up, and same thing with 10-year treasury yields, which I guess is higher than Chris -- than Hugh's forecast, if not Chris's.

Couple of points to make by the sectors on the next slide.

The natural gas boom in the U.S. has been mentioned a couple of times.

What it's done is, set off natural gas pricing trends as different from crude oil pricing tends -- and you see that in the green and blue line here -- continuing to benefit us. And, a very much unexpected phenomenon in the U.S., if you go back a decade; but, yet, very profound, certainly, in the energy sector and the manufacturing sector.

Consumer market is very important for the health of -- for the tracking of households, and sales tax-receipts especially.

We have real consumption, following real disposable income: what consumers have to spend, after taxes, et cetera.

Household net worth, almost double-digit

growth in 2013, largely, stock market.

But, the home market, residential real-estate market, has rebounded to a degree as well.

And then the other indicators that influence consumer spending: Employment growth, wage growth.

We're still relatively muted on wage growth.

I agree the labor markets are getting tighter and tighter, and, certainly, in some sectors, we could see large upside gains on wages, which, of course, have positive and negative effects. But, from the household sector, that's a benefit.

Consumption [unintelligible] light-vehicle sales, I mentioned that [unintelligible].

Home sales, as opposed to home starts, it's the last grow there.

Looking at a bar chart on next slide, Slide 8, by category:

Vehicles, strong. Medical care, strong.

It should -- you would not be surprised in.

Transportation services, as well.

The bars are "green" for last year, "orange" for this year, and "blue" for 2015, going forward.

Again, calendar-year basis, I'll warn you, which is the normal way we think about things.

Of course, when we forecast tax revenues,

we think in a fiscal-year basis, you understand. But, just as background there.

Computer and software continuing stronger.

Slide 9, light-vehicle sales ramping up dramatically from the depths of the recession, but -- and here you can calculate, you know, very -- very much, what the height of demand is, as we do with housing starts, and, largely, demographically-driven and replacement demand, et cetera.

So, we have good reasons to think we're gonna tap off -- top off at slightly over 16 million units in the U.S.

You may have heard, this is more of a long-range issue, and more around the world, the issue now, not of peak oil, but peak car. That the overall car use in the world is about to head down, for various urbanization reasons and the like.

That's another story.

Next slide, real export and import gains, they track each other, you know, for a number of reasons: world economy and exchange rates, and the like.

But here we see, in blue, the bit of waggling in exports; but, again, getting above the 5 percent

level in the medium term, 5 percent in real term, which is an aid to you -- the U.S. growth and the balance of payments; or, the balance of trade, technically, here, improving, going forward.

Those interested in the exchange value of the dollar, income competitiveness, will see our competitiveness forecast there, "blue," versus the major trading partners, Europe in particular. Canada also important here of, course. And, "green," the rest of the world.

So the bottom line for the U.S. is:

GDP growth picking up in 2013 -- '14 and 2015, with strengthening private-sector investment.

Home building continuing to rise.

And that's important, that the home sector has added to the GDP growth, and contributed lot of the recent GDP growth.

Consumer spending, in the virtuous cycle, supported by employment income, and household wealth.

Net exports continuing to support growth.

Interest rates rising, as we said, the well-known and expected changes in Federal Reserve monetary policy.

And longer term, fiscal imbalances can be

fixed, but the process is, of course, [unintelligible].

We can turn to regional economics here.

The bubble chart, on Slide 13, takes the census regions and puts them in perspective of what we like to think of as economic momentum.

Here, we're using employment.

On the horizontal axis, is year-over year growth; growth from a year ago. Right?

And the vertical axis is growth in the last three quarters.

So the question is: Is strongish growth -- stronger or weaker growth in the last year supported in the nearer term, in the more recent growth?

So, is momentum building, or not?

For the first time -- the last couple of months here, for the first time, there's -- all the census regions are in the upper right-hand quadrant, and moving to the upper right, which is great.

The mid-Atlantic, in "green" there, though you'll noticed, held back by New Jersey and Pennsylvania, more than New York right now -- although, New York is not really out surpassing them by that much -- amongst the least -- the slowest growing of the regions, for reasons we'll come to in

a minute, and expected reasons we'll come to in a minute.

I'll also point out that BLS is about to revise all their numbers in the standard annual revision for 2013, so, some of the positions will be changing.

The map on the next page, Slide 14, gives the modest growth in 2013.

New York, in the second quartile, I guess you'd call it there -- not "quintile" -- second-lowest growth; so, from the bottom, below the median.

But you see the median itself is less than 1.2 percent growth.

This is rather sluggish in 2013. And we saw, you know, weak job gains in 2013.

You see the pattern in the country of the Sunbelt leading?

Flip the page, in 2014, we're going to get higher growth rates, but the Sunbelt is going to continue to lead.

And, New York is gonna fall into the lowest quartile, not because its growth slows here, but because the growth of the rest of the country picks up.

Now, there's a reason for that, having to do with the overall shape of the business cycle here.

The Sunbelt had a much worse experience with job gains than New York did and the northeast did starting in 2007.

All right?

And it's had a much slower return to health, as we'll see.

So, comparatively speaking, over the business cycle, New York has actually been ahead of the gain -- the gain, if you will. But, that's actually directly reflected in slower growth rates now, compared to the states, like Florida and Arizona, which are finally, once again, growing very fast, even though they have not come close to recovering all the jobs they lost in the recession. A lot of them in construction, of course.

That's, uhm -- that's summarized, in a forecast sense, in the map on page -- the page numbers are gone, sorry about that.

So, technically -- well, I lost them for a while. Sorry.

But I think you'll see the colored -- the colored map there.

New York, in gray, along with Texas and much

of the Upper Plains states, regained employment levels -- record employment levels, if you will -- for the state years ago -- a few years ago. Right?

California has not yet.

Florida has not yet.

Arizona has not yet.

Washington State just did.

Right?

So -- so, you know, the states in "gray" have been ahead of the game, in terms of, either they had a weaker, slower, lesser decline, or, they grew back quicker.

And it's a little bit of both in New York State.

Massachusetts, based on a very strong Boston economy, joins that recent -- more recently here.

But you see the -- the difference in the Sunbelt here, with the yellow and the green, signifying that those states are not even getting back to where they were in 2007 or so, until 2015 to 2017.

The map in each state places the job growth at its peak level, which would have been 2006 in California, approximately; 2007 in most of the rest of the country.

It went down, and then, when does it get back up to that level?

Okay?

What the map doesn't do is adjust for the size of labor force, so labor force growth has occurred since then.

So even when you -- parts of the country regain all of the jobs they had, the unemployment rate is higher than it was.

So, in that sense, it's not a complete recovery of the economy.

Let's look at New York directly, on the next graph.

And you see, there's a job growth, same scale, percent change, year over year, in employment.

Blue solid line for New York, red for the U.S., in growth.

You see, New York -- New York -- and by the way, the U.S. economy, as a whole, will not regain the jobs, in total, that it lost in the recession until a few months from now.

That's coming up close, but that's not quite there yet. Till the middle part of this year, approximately, the second quarter.

So U.S. -- and New York outpaced the U.S. in 2011.

If you look in 2010, you see that as well.

I guess I should have included that.

Then growth has fallen off.

I think last year I termed New York as having lost momentum.

We're going to continue in our forecast down the path, between 1 and 1.2 percent growth, which is, again, which, demographically, is a slower-growing area, New York State is.

So, you're going to expect lower growth.

But a large part of the red-line increase there in 2014 and 2015, is a recouping of lost jobs, a return to normalcy, in those Sunbelt states, and that's what's driving it.

That will ultimately peak off, as well.

And I show that, yet again, to hammer the point home: If I index job gains in both New York and the country back in 2008, you see that New York is still ahead.

New York, at one oh -- approximately, 102, at the current time, it means it has 2 percent more jobs than it did in 2008.

The U.S. is just now, in this year, getting

back to the levels it was in 2008.

So there's a sense in which New York has been ahead of the cycle.

It's only out in 2016 when the U.S. had, in effect, gained more jobs -- many jobs, proportionally, over the last decade as New York.

Another way of looking at it.

Turning to other issues for revenue forecasting, and the like, in New York:

Wage and salary growth: Now, this graph was prepared before we had the January collection experience that most of you are aware of now.

So, there's a lot of uncertainty about what actual wage and salary growth is, and uncertainty in the financial sector, that I'm sure Jason and Ronnie will talk about.

For now, though, we're forecasting that, with a relatively weak financial sector, relative to the job gains they've seen in the past, we're going to have lower average wage growth, and a bit lower average wage growth in the country.

And, remember, the employment-growth forecast is also embedded in that, since we're looking at total wages and salaries; not on a per-worker, but a worker basis.

Looking at other key variables affecting New York taxes; in particular, sales taxes, and other transaction-related taxes:

New car registrations in New York -- I was looking at the U.S. before -- but, again, New York, we see the rise, up through 2013, to almost a million units. And that will stabilize now in our forecast, as we -- for similar reasons as with the U.S.

Housing starts, still a bit to go.

We've now -- we're approximately over 30,000-houses-per-year pace at the current time. And we look for gradual increasing of about thirty-five over the next year or two.

Summarize now, by fiscal-year basis, the growth rates that we project for U.S. for gross state products, employment, unemployment:

We have unemployment coming down 6 percent in 2016. That may be too slow, given the way -- the dramatic acceleration of the fall in unemployment we've seen, and the tough part, as Hugh was quite correct to emphasize, that labor force participation rate is behaving in a -- in a fascinating way, shall we say. An uncertainty.

Personal income ramping up to 4 1/2 percent.

Wages and salaries are slightly less.

And I've mentioned the other numbers before.

Bottom line:

Trailing the nation since 2012, New York economy, but trailing in terms of rates of growth, I think, as being in a more mature stage of recovery.

New York City clearly leading, and was -- is responsible for the quicker recovery for the state as a whole.

But Long Island, gladly, is now recovering strongly now.

That's not so much true upstate.

There's weakness -- relative weakness in the high-wage sectors. You know, financial sector only being just one of them.

Very much notable is the new upstate promise, especially in Buffalo, and even Utica, in the high-tech sector.

Buffalo there, and also with -- on lake-front development just finally proceeding, so, we'll see if that jump-starts a new age for Buffalo, if you will.

Wall Street retrenchment continues to be a threat. All right?

I think, I'm sure, Jason and Ronnie will follow up on that.

And, overall, we expect moderate growth for the near term, for the state, most of the region.

Thank you.

ROBERT L. MEGNA: Okay, very good. Thank you.

Any questions?

ROBERT B. WARD: I have a question.

JAMES DIFFLEY: Sure.

ROBERT B. WARD: You went back to 2008 in comparing New York to the nation, in terms of employment growth.

I believe that, if we go back to 2007, we actually had five straight years of outperforming the nation, which was the first time in history, I believe.

And, you referred to the impact of the recession and post-recession, and the nation growing faster because there were sharper declines.

But, any sense as to why we had those five straight years after a long period of the reverse?

And, why we have now gone back to, as your numbers show for the coming year, being in the

bottom quartile?

JAMES DIFFLEY: Oh, so I guess the question is more, long term, and why is the -- what was the anomaly?

With was the anomaly when New York was growing very fast, leading up to the recession, or after?

Well, the key difference in driving economic-growth differences across the country, in the time of the housing -- from the start of the housing bubble, through the recession, has been residential real-estate markets.

All right?

New York did participate in the rapid buildup, and the stock market gains at the same time, if we laid it back, and financial-sector gains, and huge incomes in that sector, did propel New York faster than the nation.

I would argue, I guess -- so to answer the question, I think in the context you want: I would argue that was the anomaly, rather than the longer term, slower rate of growth generated by a mature economy.

Okay?

And one of the big differences in the way --

the reason that -- you know, what's driving the difference in the Sunbelt behavior now is precisely the hangover of the housing crisis, where, finally, with real-estate markets normalizing, local demand is accelerating once again.

And the same excessive bubble in housing that caused the deeper declines there, that's caused different relative timing of the cycles, so....

Good question, though.

ROBERT B. WARD: Thank you.

ROBERT L. MEGNA: Thank you.

Thank you very much.

Mr. Bram.

JASON BRAM: Hi, it's great to be here.

I'm going to try to move through this fast, and -- since a lot of what I'm saying is going to sound a little familiar.

Turning your attention to this chart package, I'll try to refer to the charts by numbers; so, we'll start with Number 1.

We have our index of regional economic activity that we've developed for New York, New Jersey, and New York City.

And here you can see that, New York City -- this, by the way, is, uhm -- what we do is, it's a

blend of payroll employment, the unemployment rate, a measure of hours, a measure of wage and salary income. And we view it as kind of a very rough proxy for economic activity, with an emphasis on "rough."

But, the main purpose is to kind of indicate turning points, and give a sort of general idea as to the trajectory of the economy.

You can see that New York City had a somewhat milder recession than New York State as a whole, and has had -- has really rebounded pretty rapidly.

New York State, as a whole, is kind of just back to where it was at its peak back in 2008.

We don't do one that's based on the same methodology for the U.S., but, I'll get into other measures, like, employment, you'll see how, kind of, we've done relative to the U.S.

Chart Number 2, that's called, uhm -- the next few charts are gonna be all called "last three downturns."

The first one refers to the U.S., and what we do is, we index employment so that it's normalized to the last peak, to allow for an easy comparison.

And this enables you to -- this is what we call a "spider chart" at the fed.

This is -- enables us to kind of look at the downturns, putting them in sync with each other, and seeing how we've done.

And here you can see why this is called the "Great Recession."

The very last downturn had a much, much deeper and longer drop in employment, and a slower rebound, to the point where we're, you know, in the early '90s and the early 2000s, the early 2000s was referred to as a "jobless recovery."

But, even that one, you can see it came back to its peak well before we have in the U.S.

So, basically, the last recession has been much steeper, longer, and a slower recovery.

Now, for contrast, New York State, on the next page, Number 3, not that it wasn't a deep and harsh recession in New York State, but, it's a very different pattern than what you see nationally.

So here we have the early '90s downturn, at least in terms of employment, was actually a much steeper and longer recession than the brown line, which is the most recent downturn. This is more, kind of, similar to the early 2000s recession.

Now, of course, there are, in terms of other things, such as, for instance, the financial sector,

in terms of housing, you know, there's still some differences.

But, from the perspective of the overall economy, this was a somewhat less-sharp recession, certainly, than the nation, but, also, than the -- certainly, than the early '90s recession.

And that's true even more -- even more so for New York City, which is on the next page.

You can see New York City, the blue line, we came back in New York City much faster than in the last two downturns, to the point where employment is reaching new all-time peaks; all-time, in fact, exceeding the previous peak, I think it was in 1969, in New York City.

So, let's look a little more closely at the employment trends.

On Chart Number 5, we've done a similar sort of so-called "spider chart"; but instead of comparing it over different time periods, we're just looking at the last business cycle, and showing different parts in New York State and how they've done.

And you can see that all of New York State was -- saw a much milder -- "milder" is a bad word -- less-steep job losses than the nation as a

whole.

And, in fact, they track pretty closely together, in terms of job losses.

And what we've seen since then, is the upstate metro areas have recovered; have gotten pretty close to back to their overall peak.

And I'll get into a little bit more geographic detail in a sec.

New York State, as a whole, as I know one of you mentioned, is only just barely exceeded its previous peak recently.

And, really, New York City, and I'll get to the next -- in one of the charts coming up soon, Long Island -- but, basically, Downstate New York has led the recovery in employment in the region.

And this map kind of puts a little more perspective on it.

You can see that -- what we've done is, we've looked at the peak-to-trough job losses in the different parts of the state, and then asked the question: How much of that job loss has been reversed?

So in a worst-case scenario, none of it has. There's been really no recovery, so to speak.

And that's what you're seeing in Binghamton,

and some other areas that are in gray, have not -- have only -- have recovered less -- fewer than 75 percent of the lost jobs.

Within that, I will say, that there are some areas that are pretty close to Binghamton, in terms of not having much of a recovery; and those would be Elmira, the Kingston, and Poughkeepsie areas.

Then you see a large swath of Upstate New York as sort of in the -- you know, partway there, but certainly not having recovered that much of -- certainly not all of the job losses.

Buffalo and Rochester, interestingly, these -- Buffalo to -- historically, has had, barely -- you know, weak trend growth in employment.

Yet, Buffalo and Rochester have both recovered most of the -- reversed most of the job losses.

And, then, to save the best for last, you have, basically, New York City, Long Island, and the Ithaca metro area have recovered all of the lost jobs, and then some.

So those are really the -- kind of the booming areas of the state.

On Chart 7, we -- this is kind of looking at the rate of job growth on a 12-month-percent change

basis.

And to get -- Mr. Ward, to get to the Deputy Comptroller -- so, New York State, you're absolutely right, going into the recession, and during the recession, outperformed the U.S.

But, actually, during most of the 2000s, it was pretty on track with the U.S.

And it's actually fairly rare that you see -- because of the fact that it is a mature economy, that we do have slower population growth, it's fairly rare that you see New York State or New York City outperform the U.S.

And, so, I guess the point I'm trying to make here: Recently, we've been a little bit below the national average, but that's -- I would consider that more of a normal thing.

It's kind of what saw in the 2000s.

This graph doesn't go back that far. It's what we saw in the '90s.

And, it's actually much better, or, less bad, than what we saw in the 1970s, when New York State was, you know, on a very un- -- much underperforming the national average.

And then you see a similar situation; for example -- oh, I'm sorry, here we -- we have,

Rochester and Buffalo, just to give you an idea.

This -- basically, the purpose of this is to show you how the areas have done -- the individual areas have done across the last few cycles, and how they've done specifically relative to the U.S.

And you can see that Western New York State -- I'm counting Rochester.

From a New York City perspective, I guess Rochester is Western New York State. Kind of the same way New Yorkers consider -- some New Yorkers consider Bronx upstate, but, we won't go there.

But, anyway, Rochester and Buffalo have -- admittedly, they've seen a weaker recovery than the nation, for sure. But, again, they weren't hit as hard by the recession.

And then, you know, basically, they, typically, during booms, they haven't been seeing that much job growth, but they've been more mildly affected during the last couple of recessions.

And this is sort of consistent with long-term trends.

Now, keep in mind, this is employment.

I'm gonna get to some graphs on housing in a minute, that paint a very different picture of western New York State.

Chart 9, we have job growth in the -- some of the Southern Tier. We've sort of grouped that as central New York State, I guess.

And what really jumps out here, again, is Binghamton, and to some extent, Utica, have been lagging the rest of the state and the nation.

And, in particular, Binghamton.

We don't have it here; Elmira is kind of similar to Binghamton.

Those areas are really still kind of depressed.

Albany, on the other hand, you know, has seen a reasonably good rebound, though not quite in line with the nation.

On Chart 10, we have kind of what we call the "downstate areas."

And here you can see that New York City and Long Island have really led the state, and have exceeded the nation in job growth during this recovery expansion.

Poughkeepsie has had, you know, mid -- it's Mid-Hudson Valley, Kingston is the same sort of thing, has been somewhat of a laggard.

I should add that the recent drop, I'm not really quite sure, a little -- it looks a little

disconcerting, but keep in mind that these data are preliminary and they're subject to revision.

So, when we see a big drop like that, and find it hard to explain, we like to usually wait, to see what the revised data look like.

But, certainly, the Mid-Hudson Valley is not one of the -- a strongest part of the state.

Now, switching our focus to New York City, because I know that, when you're looking at revenue, New York City, and particularly New York City's securities industry, is a very important component of that.

And this goes back, I probably have shown this every time I've been here, but, there's always new data to add; so, just very briefly:

I think the point of this chart, is it shows securities-industry employment in New York City, and employment in the rest of, basically, New York City.

Any -- what -- what -- what to take away from in this is, pretty much, that every downturn in New York City's economy has been preceded by a downturn in the securities industry, in terms of employment.

And, similarly, every upturn in New York City's economy has been preceded by an

upturn in the securities-industry employment.

So, it's kind of like a leading indicator of New York City employment. Or, you can think of it as almost a driver. You know, this is a very important. It's widely considered New York City's key driving sector of the economy.

And, so, every upturn has been preceded, except for the last one.

And if you look around 2010, when New York City employment started to turn up, securities employment turned up a little bit, and it did so after the fact.

So, this was the first time, really, that the securities industry hasn't led, at least by a little bit, an upturn in New York employment.

And, you can see that we've had this fairly sizable expansion in New York City's employment, really, without any help from Wall Street. And that is unprecedented, at least in the last, what is this, 40? 50? -- 50 years.

So, it's an unusual situation.

And, you know -- well, let's get to the next chart, because this is where it becomes relevant.

This is year-over-year percent change in wage and salary -- aggregate wage and salary, which Jim

just referred to.

And you can see that the -- what we saw in kind of, 2008-2009, was the biggest, really, year-over-year decline on record, in both New York State and New York City -- New York City being a big component of New York State, of course -- and far exceeding the nationwide drop.

And, you've seen that the rebound, although there has been -- you know, it's gone above zero, the rebound has been slower than usual.

So, typically, for example, in the '90s, and even in, to some extent, the early 2000s, you see some pretty big jumps in wage and salary income coming out of, you know, at least during the later stages of recovery, to a large extent, led by Wall Street. But, to some extent, broad-based.

And these are a little bit more muted this time.

And so this, of course, is a big challenge, you know, for revenue, and something that everyone has pretty much focused on here.

And then, coming into the final part, it's important here to look at the housing -- the housing prices.

And the price index that we tend to focus on

is from the -- an organization, CoreLogic.

They do, it's called, a "repeat sales index," so that it accounts for kind of the changes in the mix.

So if, in one-quarter, or in one year, suddenly, all the nice homes are selling, it doesn't look like there's this huge price pickup. It's based on comparable home sales.

And what you see, first of all, what jumps out, is the United States had a much deeper drop than any parts of New York State.

Upstate New York really did not -- didn't have a big boom, but, didn't really have a bust either, the way that, you know, parts of New York State, and certainly places like Florida and Nevada, did.

So Upstate New York is sort of a -- has been -- I guess the word I would use is "stability."

You know, when prices weren't going up that much, it was considered a bad thing, because people in Upstate New York were saying, Why aren't -- you know, Why aren't we seeing some, you know, decent appreciation?

But, things have been stable.

And as you see more recently, they've picked

up more so than downstate, in fact, as a whole.

And to get a little more geography in here, you can see New York City, Long Island, Dutchess, the downstate areas, kind of -- New York -- aside from New York City, a little bit lagging the rebound.

This is on -- I'm sorry, we're on Chart 14.

And then on Chart 15, you can see some of the -- we picked a few upstate areas.

And you can see that Buffalo has seen, really, no downturn, and, has seen prices -- prices have kept going up.

So looking just at housing markets, Buffalo looks very strong.

Now, keep in mind, as I know that, you know, we have some economists at the New York Fed that are stationed in Buffalo. And whenever we have a conversation about home prices, it's like we're on two different planets, because, what a house goes for in Buffalo is what a parking space goes for in parts of Manhattan.

Having said that, so, housing affordability, of course, is an issue. You don't have the same kind of pressure on population growth.

But, uhm -- anyway, it's important to focus

on, you know, some of the positives of Upstate New York, to give a more balanced view of the economy.

Another issue that we've looked at is -- that we track, again, from CoreLogic, loan performance, and some other organizations that we follow, track the -- both -- well, we look at the flow in to foreclosure, we look at the inventory of foreclosed homes, distressed homes, delinquent, and so forth.

But I think the backlog of foreclosures tends to be a good summary measure of what's going on, and, this is a factor, of course, affecting the housing market.

And what you see is that, whereas, this backlog has come down nationally, it has -- it remains somewhat stubbornly high throughout New York State, particularly in some of the downstate areas.

Part of the reason for this is that homes stay in foreclosure longer.

But one way to think of this is, that, to have -- for housing markets to get back to normal, this backlog of foreclosures has to get down to, if not where it was in the mid-2000s, at least a lower level than it is now, to -- to not be kind of

a drag on the market.

Anyway.

And, finally, the last two charts I'm going to show you, on Chart 17 and 18:

On Chart 17, the Federal Reserve Bank of New York does two surveys.

We do a survey of manufacturers across New York State: the Empire State Manufacturing Survey.

And we've also been doing a survey of service-sector firms across the district, at least the continental part of the district, which is New York, New Jersey -- Newark, New Jersey, and part of Connecticut. But, a large majority of these firms are in New York, so, it's largely a New York State survey.

So you have, the blue line is the manufacturers, the brownish rust-colored line is the service-sector firms.

And one of the -- one of the things that we like about this, is that it gives you -- we do the survey, release it very quickly, so it gives you a fairly timely read, at least on what businesses are saying and thinking.

And as you can see, the surveys, both the

manufacturing, but especially our service-sector survey, sort of presaged the, uhm -- or at least signaled the downturn in 2008.

And it's a diffusion index, which means -- well, basically, it's actually -- the index is really a very simple thing.

It's simply the number of business -- the percentage of businesses saying things have gotten better in the last month, versus the percentage saying things have gotten worse.

And when it's above zero, you know, the balance is positive.

And, you can see a, little disconcertingly at first, you might say, the service-sector index has dropped below zero early this year.

However, what we saw the last -- I'm sorry, in November of 2012, was a similar drop. That was after "Sandy," which I'm sure everyone in this room remembers well.

And, there is some evidence that we found, anecdotally, that this recent drop is largely due to the weather, that, I think you had said -- one of you said, shaved a few tenths off GDP.

And in this region, it probably shaved quite a bit more off economic growth, because it kind

of -- we're at the -- we were a big part of -- of -- as the nation goes, we were hit harder than most of the nation.

So -- and then the second chart here is our forward-looking index, which didn't -- really, those -- those have been really quite positive.

And so, I guess -- and these data are through mid-February, so this is very current data. This is, the latest readings are from early February.

And, in a nutshell, I think what I'd say is that: I think -- again, this is -- this is sort of a judgment call, but, we've been hearing an awful lot about business being inhibited by the weather in -- to some extent, January, but more in January and early February.

And, right now, it's still cold. It's not -- you don't have the snow and ice problems.

But, my sense is that this is having quite -- has had quite a substantial but short-term effect on economic activity.

And when the weather gets warmer, you could see some pickup in demand.

And, I have -- the last slide I have is a recap, and I don't think I need to read through that. You guys can read them and look at them, but,

it's pretty much a recap of what I've talked about for the last few minutes.

And, I should close off by saying what I should have said at the beginning, which is: These views are mine, and not those of the Federal Reserve Bank of New York or the Federal Reserve system.

Thank you very much.

ROBERT B. WARD: Thank you.

Thank you very much.

Any questions for Mr. Bram?

All right.

Last, but not least, Ms. Lowenstein.

RONNIE LOWENSTEIN: Okay, thank you.

And I will try to be brief, to get us all out of here.

And I think that's not going to be too hard, first of all, because Jason's covered some of what I was going to cover; but, also, because my chart package is largely self-descriptive.

So, you know, if you read through it, you'll get to the same place.

The first chart, what I'm mainly talking about is economic conditions in the city; and, particularly, employment and real estate.

I'm going to end with some comments on the city's fiscal outlook.

We'll be putting out our complete forecast next week.

We've pinned the economics numbers, but, definitely not the tax revenues; and, so, you know, that will be just conjecture.

So starting off looking at city employment, what you've got here is a long series, going from '69 to the fourth quarter of '13.

We're starting at '69 because that's when the reliable data starts.

And, it's seasonally-adjusted quarterly data for the U.S., in green; and New York City, in red.

The shaded bars are the "U.S. recession" shading.

And what you can see is basically what Jason just said.

We hit an all-time peak, at least based on reliable numbers. 4 million jobs in December, which was great.

If you look closely at the downturns, and Jason said a lot about all of the other downturns, but, most recent downturn, if you look at New York City's decline, you can see that city has

regained, roughly, twice as many jobs as it lost in the downturn, which is a much better performance than for the U.S., which, at this point, has regained about 90 percent.

We, too, are looking at labor force participation issues.

I think there are real issues about why, even though New York City is gaining lots of jobs, the unemployment rate has remained stubbornly high, particularly contrasted with the U.S., where they haven't gained nearly as many jobs, but the unemployment rate has declined.

Some of that's labor-force-participation conundrums. Some of that, I think, is the data itself; and, particularly, the household-survey-data problems.

And, we're looking more closely at the demographics of it, and publishing on that in the coming months.

Turning to where the jobs came from, and where we expect them to come from, the -- there are two pie charts on this page.

They both look at shares of New York City employment growth. Not just employment, but employment growth.

The left-hand pie shows what happened during the expansion from 2003 to 2008.

The right-hand pie is our forecast for where employment growth is coming from, from 2013 through '18, which is our forecast period.

The bottom line here is, we're still expecting the biggest chunks of employment growth to come from the four sectors that we got it from last time, which is to say: Education and health care, which grew even during the downturn; professional and business services, leisure and hospitality, and trade.

This time around, we're expecting a bigger chunk of the jobs to come from the information sector.

It's still pretty small, but it's growing robustly.

But the big difference on the two charts is securities, where, in the previous expansion, what we got was, 9 percent of the employment gains were coming from securities; while we're only expecting a third of that, 3 percent of employment gains, going forward, to come from securities.

Actually, we had that as a lower number, and we ratcheted it up a little.

It's still, you know, just a third of the job gains that we had seen before. But, of course, it's not just jobs that count; it's the wages that come attached to those jobs that matter, in terms of the city revenues.

And there are big differences in wages across sectors, which I'm sure all of us understand.

So, if you look at the next chart, on employment-change forecast and average wage, you can see that the four sectors that are contributing the most jobs in our forecast, and they contributed the most in the recent upturn, three out of four of them are -- you know, have wages that are certainly below the average for the city.

The exception to that is professional and business services, where average wage is 107,000 per year.

I should explain that, this is not -- this is the wage that we're forecasting. We forecast employment by subsectors.

And, professional and business services is a really broad sector. You've got administrative and support services on the low end, and you've got professional and technical on the high end.

In our forecast, the split is pretty much

even between the two groups, which is giving us -- producing the $107,000-a-year forecast for average salaries that we've got.

If you go down a little further on the chart, you can see that the information jobs we're expecting to add also pay well. Roughly, $120,000 a year, in 2013.

But then if you go down just a little further, you see that, of course, by far, the highest wages are coming -- wages and salaries are coming out of the securities sector.

Those average wages and salaries include bonuses -- cash bonuses.

They're are high.

They're much higher than other sectors; and, so, every job you add in the securities adds a lot more than multiple jobs in the others.

I should also note that, this number, this 343,000 we're forecasting -- well, which we've got for 2013, is more than a fifth below what the '07 peak was in real terms.

I don't expect collections or anything for these people, but, yeah, they're certainly earning less than they were.

And you can see that in Jason's charts.

Okay, so, wages are important.

So, the next set of pie charts shows you what -- where the sources of wage growth are going to be, going forward.

And, the bottom line on this is: Look at the securities sector.

In the expansion of '03 to '08, the securities sector accounted for 56 percent of all of the increase in aggregate wages and salaries over the period.

It's all the additional monies that were earned in New York City. 56 percent of that amount came out of this particular sector, that employs about 5 percent of city employees -- city employment.

If you go to the forecast, we're now anticipating the securities sector will be responsible for 13 percent of the increase in wages and salaries over the period.

That's a huge difference.

I think it leads to one of the big questions on our fiscal forecast, which is: Can the city of New York continue to add jobs the way it's added?

And we've added jobs nicely, as Jason pointed out, without a booming securities sector.

Okay, a closer look at the securities industry is on the next page.

Without going into all the details:

The top panel looks at New York Stock Exchange member firms' revenues.

The bottom panel is their expenses.

The difference between the two is, of course, profits.

There, you can -- if you look closely, at your leisure, you'll see there are humungous changes, you know, really volatile changes, in both revenues and expenses.

We swung from huge losses in '07 -- 2007 and '8, on the order of $63 billion.

And this is just for Stock Exchange member firms. It's a subset of the securities industry. It's not all of it, but it's a good proxy for the industry as a whole.

Lost 63 billion, from '07 -- in '07 and '08. Then swung to profits of 61 billion in '09.

Since that rough ride, what we see is that, on the bottom panel, expenses are remaining low.

That's primarily because interest rates have been very low.

But revenue is, looking at the top panel,

roughly, half of what they were during the boom.

It's not at all clear that those revenues will rise again.

For one thing, interest rates are going to be going up.

And although the industry earns something on this -- when interest rates goes up, it costs them a lot more in terms of borrowing.

The other reason, is that -- let's see, interest rates.

Oh, and the other reason is, of course, tighter regulation.

So the combination of higher interest rates and tighter regulations suggests to us that it's gonna squeeze the profits' forecast.

So far this year, the New York Stock Exchange member firms have earned $13 1/2 billion.

Our forecast for the year, as a whole, is something on the order of 18 billion.

But going forward, we're looking at profits more in the 14 billion -- 13, 14 billion dollar range.

Turning to real estate, the tentative property tax roll was just released last week for the city. It shows that market values are up

6.6 percent.

Now, that's gonna come down a little as people challenge their assessments, but it's still a very strong growth.

And, the growth was strongest in the commercial area, and less so in residential.

What you've got are pictures -- words on the left side and pictures on the right side.

The two graphs on the right-hand side of the page show Manhattan condos and co-ops.

Condos are in blue, co-ops are in red.

And the top panel shows sale price.

The bottom shows volume.

And what you can see is, that the median sales price of condos rebounded to $1.1 million in 2013.

And, that the -- in the bottom panel, you can see that the sales volume has also been rising since 2009.

And both sales price and volume are at or below -- well, at or above, sorry, their prerecession peaks.

Turning to co-ops:

Manhattan co-ops' prices have been, roughly, flat over the last four years. Since these are in

nominal terms, they've been drifting down in real terms.

And, median prices hit two hundred -- $650,000 in 2013.

But, sales volume has been increasing over the past few years; although, it remains more than a fifth below the 2004 peak.

Here's the same story in terms of outer boroughs.

Given the mortgage problems and the mortgage crisis, and the role of mortgages in the financial crisis, it's not surprising that the biggest difficulties were in the one-, two-, and three-family home sector, and they continue to struggle more than any other category.

So, the top panel again shows prices.

The bottom panel shows volume.

And one-, two-, and three-family homes are in green on the top panel.

And what you can see here is, that median sale prices rose to 470,000 -- 475,000 in 2013, but remained more than 10 percent below their 2007 peak.

Then if you look at the bottom panel, the volume of sales in two thousand -- in 2013 was only about half that in 2004.

So, that's where the real weakness remains.

And, the numbers of these units is huge, swamp -- far swamping what you're seeing in Manhattan, and far swamping the number of co-ops and condos in the outer boroughs.

So, it's really something that's hugely important, and, is a major factor in our forecast.

Let me skip forward to commercial real estate. It's on the next page.

Commercial has rebounded -- well, commercial hurt more than residential in the downturn, and has rebounded more than residential in the upswing.

What you see on the left-hand side of the chart, this -- it -- the chart is commercial-property sales.

Well, I'm showing both taxable sales in billions, and the total number of transactions on the same left-hand scale.

And it just so happens that they both work together.

The taxable commercial sales, in dollars, are in the -- are the line. And the bars are the number of transactions.

And so what you can see, just looking quickly, the number of transactions tanked, as did

the value of transactions during the downturn, but, they've skyrocketed since then.

So the -- in the rebound, they've reached 55 billion in 2013.

And, if you look across, that's not so far from the peak.

And there were 80 large commercial sales in 2013. And by "large" I mean, valued at over $100 million, which is nearly as many as there were in 2006.

Now, given that most of us would characterize the expansion as a speculative bubble in real estate, you know, this is good news, but also cause for concern.

Let me end up with just some observations on the City's fiscal outlook.

First of all, the biggest heed to the City's fiscal outlook is the labor settlements.

Every City union is now working without a contract, some of them as far back as 2009.

That's an issue.

And, there's talk, there's a lot of, you know, discussion of, Well, it's gonna cost $7 billion to deal with the problem.

And, I'd like to just debunk that right away.

First of all, we were the people who first put out that scenario. And, we were sitting around the conference table, saying: Well, what would have happened if the teachers who didn't settle in the prior round of negotiations got the 4 percent and 4 percent increases that the other unions got at that point, and, then, the teachers and everybody else got 2 percent a year since then?

And that adds up to something in the vicinity, a little over $7 billion.

But that was a scenario, one scenario, out of, effectively, an infinite number of scenarios that I could sketch for you.

And what this page does is sketch a bunch of them.

There's gonna be some -- you know, it could be anything.

It could be wage increases.

It could be retroactive pay.

It could be bonus payments.

There's a lot of room for negotiation here.

And, how much it's ultimately going to cost the City depends upon where they wind up.

So, you know, just take a look at the various -- you know, I just picked a bunch of

scenarios at random.

We'll be putting more information out on this.

But the key here is, we don't know how much it's gonna cost yet, and I'm sure the administration doesn't either.

And, finally, that's not the only question in the city's outlook. And, you know, I can go on, at length, in this, but, I just put what I thought were the four biggest issues that the city is facing.

Obviously, the labor settlements are number one.

But, more fundamentally, can the city continue to grow jobs the way it's been growing, given that we're looking at expecting a smaller, less lucrative financial sector, going forward?

The City has got real problems with its health and hospitals corporation, and its housing authority.

Those were -- you know, it's likely that those are gonna weigh more heavily on the new administration than it did on its predecessor.

And, that's going to be an issue for the City, fiscally, going forward.

And, then, nobody's even talking about the

cost of sustainability investments, where there's a lot of discussion about, Are we getting our reimbursement for "Sandy"?

But that's federal reimbursement.

The question is: Going forward, how much we're going to have to be spending to deal with the next one.

So let me leave it at that.

Thank you.

ROBERT L. MEGNA: Thank you very much.

Any questions?

Okay, I think that concludes our session for today.

Staffs will be meeting, I believe, beginning tomorrow, to hopefully come up with a consensus revenue forecast.

The work that you've done will certainly help inform that.

So, I want to thank you for coming, and for your guidance.

(Whereupon, at approximately 3:32 p.m., the New York State 2014 Economic and Revenue Consensus Forecasting Conference concluded, and adjourned.)

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