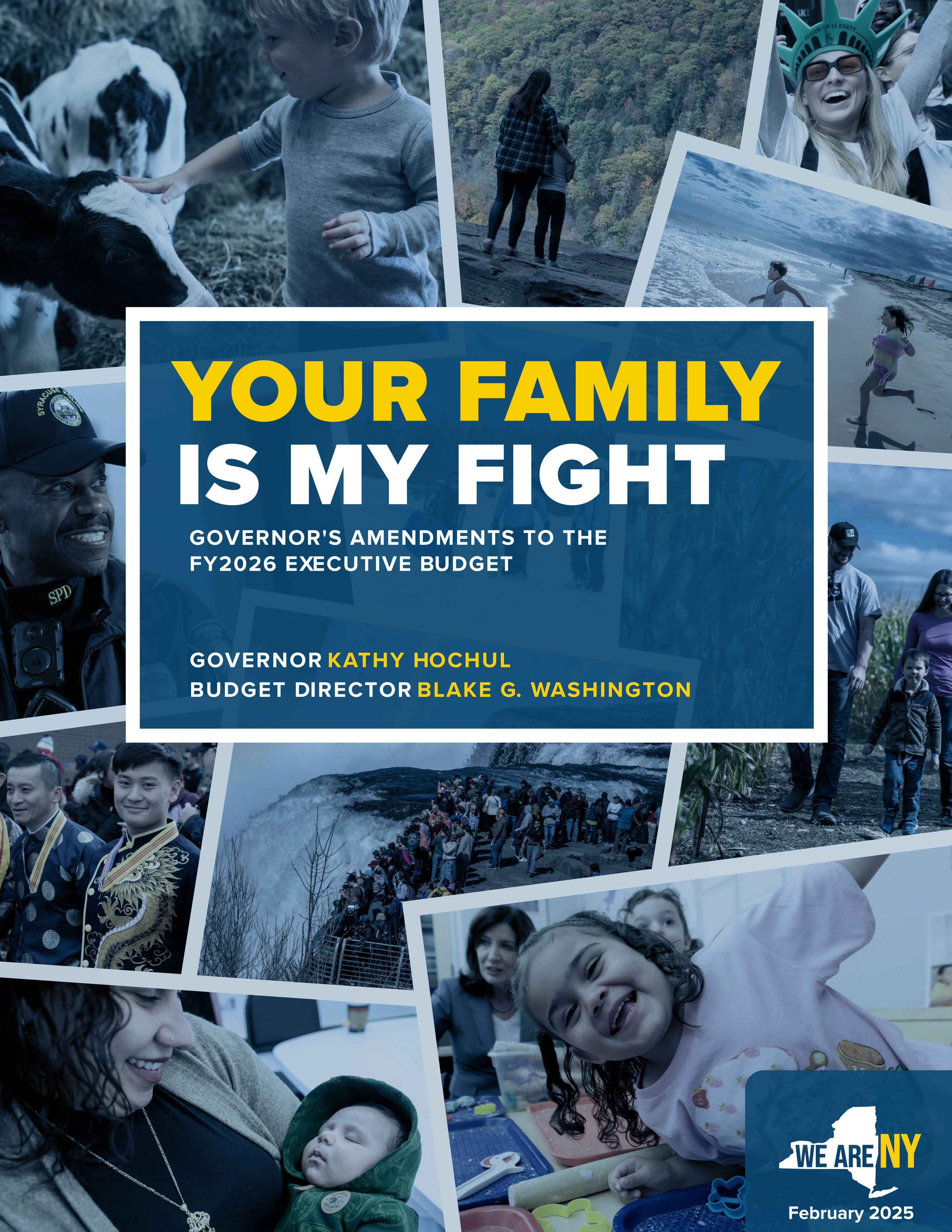

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GOVERNOR'S AMENDMENTS TO THE FY2026 EXECUTIVE BUDGET

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Governor's Amendments to the FY 2026 Executive Budget

New York State Governor Kathy Hochul submitted the Executive Budget proposal for Fiscal Year (FY) 2026 to the Legislature on January 21, 2025. The State Constitution permits the Governor to submit amendments to the Executive Budget within 30 days of its constitutional submission date. As permitted by law, the Governor submitted amendments on February 20, 2025.

The amendments to the FY 2026 Executive Budget included in the Governor's submission are generally technical in nature and are not expected to materially impact the Financial Plan. Accordingly, the multi-year (FY 2025 through FY 2029) forecasts of receipts and disbursements set forth in the Executive Budget Financial Plan[1] are unchanged. The Economic Outlook section herein has been revised to reflect actual 2023-2024 data published after the Executive Budget Financial Plan was released in January 2025.

On or before March 1, 2025, as required by law, the Executive and Legislature are expected to issue a joint report containing a consensus forecast for the economy and projections of certain receipts for the current and upcoming fiscal years. In the consensus forecast report, the parties are expected to forecast the level of receipts over the two-year period (FY 2025 and FY 2026).

Any revisions to the Executive Budget Financial Plan receipts forecast from the consensus forecast process, as well as necessary spending revisions associated with new costs and amendments to the Executive Budget will be reflected in the FY 2026 Enacted Budget. The transaction risk reserve is expected to cover any unanticipated costs that may materialize within the current fiscal year.

[1] The FY 2026 Executive Budget Financial Plan is available at FY 2026 Executive Budget Financial Plan

Economic Outlook

The U.S. economy marked another year of resilience in 2024 as inflation continued falling without a significant rise in labor market weakness. As a result, the DOB economic outlook has been revised up over the course of the past year. Similarly, the Blue Chip consensus forecast for U.S. real Gross Domestic Product (GDP) growth for 2024 rose steadily from 1.6 percent in January 2024 to 2.7 percent in December 2024. National employment growth has slowed as expected but remains at a healthy pace. The U.S. unemployment rate has ticked up almost half of a percentage point since January 2024 to 4.1 percent as of December. Price inflation has moderated markedly towards the Federal Reserve's 2.0 percent target. Taken together, economic indicators at the end of 2024 were consistent with an economy settling into a balanced growth path without either a significant acceleration in inflation or a steady increase in unemployment.

Looking ahead, the 2025 economic outlook is shaping up to be weaker. Significant policy changes proposed by the new administration will have a meaningful impact on various aspects of the economy, including labor markets, international trade, and business investment. DOB's baseline forecast partially reflects expected Federal fiscal and monetary policy changes. However, the size and timing of the policy changes and their implementation remain highly uncertain at the outset of 2025. DOB's baseline economic outlook assumes a full extension of the tax cuts in the 2017 Tax Cuts and Jobs Act, a tariff hike, and corresponding retaliation by trading partners that will push up goods prices and weigh on imports and exports. The forecast also reflects a more restrictive immigration policy that will reduce the growth of labor supply. Meanwhile, DOB expects business investment in the long run, particularly productivity-enhancing tech investment, may be bolstered by the extension of corporate tax cuts that increase the after-tax return to investment and business-friendly deregulation policies.

On balance, U.S. real GDP growth is forecast to slow from an average pace of 2.8 percent in 2024 to 2.1 percent in 2025 and 2.0 percent in 2026.[2] Thus, this forecast is consistent with the U.S. economy returning to growth rates closer to its long-term potential over the next two years. However, reaching the Federal Reserve's target inflation rate is expected to take longer in light of the expected tariff hikes and tax cuts. Monetary policy is likely to continue easing over the next two years, but future rate cuts are anticipated to be much more gradual than the pace in 2024. Long-term interest rates are expected to remain elevated. This would curb consumer spending, residential and business investment, as well as employment and income gains.

In line with a cooling national labor market, New York State's employment growth slowed to an estimated 1.5 percent in 2024. Job growth is projected to decelerate further to 0.8 percent in 2025 primarily due to the State's labor shortages and weaker global and national economic conditions.

[2] DOB's U.S. economic forecast incorporates the second estimate of 2024 third-quarter GDP, the October 2024 personal income and outlays estimates, the October 2024 CPI report, and the initial estimate of November 2024 employment. DOB's New York State forecast incorporates the second quarter of 2024 personal income by state data and the first half of 2024 Quarterly Census of Employment and Wages (QCEW) data.

State personal income is projected to grow by 4.1 percent in FY 2026, decelerating from the previous year primarily due to weaker wage growth. Despite a slowdown in job growth, State wages are estimated to grow at a solid rate in FY 2025 as finance and insurance sector bonuses are expected to remain strong in the final quarter of the fiscal year. Strong performance in equity markets and ongoing Federal Reserve rate cuts are expected to drive these gains in FY 2025. However, the continued slowing of State employment growth and a moderating outlook for finance and insurance sector bonuses in FY 2026 suggest wage growth will slow to 3.7 percent.

MAJOR ECONOMIC INDICATORS

	Calendar Year Growth (%)		
	CY 2023 Actual	CY 2024 Estimated**	CY 2025 Forecast**
Real U.S. Gross Domestic Product (GDP)	2.9	2.8	2.1
Nonfarm Employment			
U.S.	2.2	1.3	1.0
New York State	2.2	1.5	0.8
U.S. Wages	5.4	5.9	4.3
U.S. Personal Income	5.9	5.5	4.3
U.S. Consumer Price Index (CPI)	4.1	3.0	2.7
U.S. Civilian Unemployment Rate			
U.S.	3.6	4.0	4.3
New York State	4.2	4.3	4.3

	State Fiscal Year Growth (%)		
	FY 2024 Actual	FY 2025 Estimated**	FY 2026 Forecast**
Personal Income			
U.S.	5.8	5.0	4.2
New York State*	5.3	5.2	4.1
Wages			
U.S.	5.7	5.3	4.2
New York State	4.2	5.4	3.7
Nonfarm Employment			
U.S.	1.9	1.4	0.8
New York State	1.8	1.3	0.7

Note: * New York State personal income is constructed by using QCEW wages and BEA non-wage income.
** Estimated and forecast values are based on the DOB forecast as of January 9th, 2025.

Source: Haver Analytics; Moody's Analytics; New York State Department of Labor; DOB staff estimates.

Risks to the Economic Outlook

The United States economy faces significant risks in 2025, largely driven by uncertainties surrounding economic policy under the new administration. Extending the provisions of the 2017 TCJA could widen Federal budget deficits and increase inflationary pressure in the coming years. Turnovers of global governmental leaders and geopolitical risks, such as political and military tensions in Asia and the Middle East, may create additional uncertainties and disruptions. Energy prices could go higher and global supply chains could be disrupted. A more restrictive immigration policy would reduce labor supply while deregulation in key sectors might undermine economic stability and consumer protections in a range of markets, particularly financial markets. Additionally, climate-related shocks threaten to disrupt supply chains and physical infrastructure. These risks and uncertainties, along with some policy changes, could slow GDP growth, elevate inflation, and weaken the labor market even more than what's already reflected in DOB's forecast and present significant challenges to the U.S. economic outlook.

The following table summarizes the impact of major economic policy changes proposed by the new administration. These economic policies can influence GDP growth, employment growth, and inflation in varying ways. Their outcomes may depend on implementation details and timing as well as broader economic conditions. Although the eventual net outcome is uncertain, this table combines insights from different sources to indicate the likely direction of the economic indicators. The precise combination of implemented policies and their sequence would determine the ultimate results of these policies.

POLICY IMPACT ON KEY ECONOMIC INDICATORS

	Real GDP Growth	Employment Growth	Inflation
Tax Cuts	+	+	+
Tariffs	-	-	+
Immigration Restrictions	-	-	+
Deregulation	+	+	+
All Policies	down 0.2-1.6 pp	down 0.1-1.5 pp	up 0.2-1.3 pp

Note: "+" indicates the policy will increase the value of the economic indicator, whereas "-" indicates the policy will decrease the value of the economic indicator, "pp" stands for percentage points.

Federal Tax Policy

Multiple provisions of the TCJA will expire at the end of 2025. Extending the TCJA without reducing current Federal government spending levels will widen the gap between revenues and outlays, exacerbating the U.S. structural budget deficit, which is already the largest among the G7 nations. The Committee for a Responsible Federal Budget (CRFB) estimates that extending the TCJA would result in modest impact on long-run economic growth ranging from a 0.5 percent reduction to a 1.1 percent increase.[3] With elevated interest rates and a full employment economy, the deficit-financed tax cuts will add further inflationary pressure. If the TCJA is not fully extended, the negative impact on inflation might be less than anticipated.

Global Trade Disruptions

The risk from new tariffs depends on how widely they are applied, which industries they affect, and how trading partners retaliate with their own tariffs. The new administration implemented 10 percent additional tariffs on imports from China, postponed 25 percent tariffs on imports from Canada and Mexico, and announced 25 percent tariffs on steel and aluminum. Tariffs are likely to raise consumer prices, disrupt supply chains, and provoke additional retaliatory measures from other global economies. These responses could harm U.S. exporters, stoke inflation further, and reduce GDP. If the tariffs focus on specific industries, the negative impact could be more limited to certain sectors and geographies. DOB's baseline forecast assumes partial implementation of tariffs under the new administration.

Labor Disputes

The U.S. economy faces significant labor market risks stemming from employer-employee disputes. There have been some major strikes in important industries in the recent past, such as the dockworker strike along the East and Gulf Coast, the Boeing workers' strike, and the Screen Actors Guild strike. Potential and ongoing labor strikes could disrupt domestic and global supply chains, reducing productivity, revenues, and economic stability.

Immigration Policies

According to estimations from Peterson Institute for International Economics (PIIE), the scenario of deporting 1.3 or 8.3 million undocumented immigrants could reduce the U.S. labor supply by 0.8 percent or 5.1 percent, respectively.[4] A reduced labor force would strain industries reliant on immigrant workers and decrease their output. However, a labor supply reduction may encourage businesses to invest in labor-saving technologies, thus improving productivity in the long term. The

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[3] "Tax Cut Extension Would Only Pay for 1% to 14% of Itself," The Committee for a Responsible Federal Budget (CRFB) report, June 6, 2024. Available at https://www.crfb.org/blogs/tax-cut-extension-only-pays-1-14-itself. Last accessed: January 15, 2025.

[4] Warwick J. McKibbin, Megan Hogan and Marcus Noland, "The International Economic Implications of A Second Trump Presidency," Peterson Institute for International Economics (PIIE) Working Papers 24-20, September 2024. Available at: https://www.piie.com/publications/working-papers/2024/international-economic-implications-second-trump-presidency. Last accessed: January 9, 2025.

overall impact of the policies on the economic outlook remains uncertain; however, a reduced labor force, to levels below what is already expected, is likely to slow GDP growth further in the near term. Slower economic growth would increase challenges for businesses and policymakers. On the other hand, if these policies or their implementation are less restrictive than assumed, the negative impact on the forecast would lessen.

Deregulation

The potential impact of deregulation presents both opportunities and risks for the U.S. economy. By reducing regulatory burdens, businesses could face lower compliance costs which could enable increased investment and expansion. GDP and employment growth would be positive. The combined effect of deregulation policies, further tax cuts, and lower interest rates can further amplify economic growth. However, despite its potential for fostering investment and short-term growth, deregulation introduces new uncertainties to the U.S. economic outlook. Some of these uncertainties could even lead businesses to hold back on spending and investment plans. Deregulation may also increase other vulnerabilities in the economy. For example, reduced oversight in financial markets could increase the risk of asset bubbles and financial instability. Additionally, weaker standards might lead to further consequences such as environmental degradation and undermining worker protections.

Global Geopolitical and Economic Risks

In addition to heightened degree of geopolitical uncertainties, several countries, including Canada and Germany, will hold elections and install new governments in 2025. The attitude of these new governments to international relations, including diplomacy and trade, will help determine the global economic landscape. For example, escalating tensions in the Middle East could drive oil prices higher, adding inflationary pressures and further limit the Federal Reserve's ability to lower interest rates as planned. Developments around the Russian invasion of Ukraine or the global presence of China could destabilize energy markets and global supply chains. Meanwhile, extreme volatility in China's stock market and weakness in the Euro Area economy, together with uncertainties from tariff hikes and retaliations amplify risks to international trade, dollar exchange rates, and global financial stability.

Climate Change

Climate change poses significant risks to the U.S. economy. Rising temperatures and intensifying natural disasters, such as hurricanes, droughts, wildfires, and floods, could cause GDP in the future to be lower than in scenarios with stable temperatures and climate conditions. Coastal property losses from sea level rises could range from $250 billion to $930 billion annually, straining insurance markets and Federal relief programs. Natural disasters such as hurricanes disrupt supply chains, reduce revenues, and increase repair costs, while long-term costs, such as higher mortality rates, and ecosystem damage exacerbate economic and social inequalities, creating lasting economic instability.

New York State Economic Outlook Faces Unique Risks

The forecast for New York's economy shares many of the same risks as the national outlook, but also faces additional challenges due to the state's unique economic structure. As the financial capital of the world, New York is particularly vulnerable to shifts in monetary policy and fluctuations in financial markets.

Remote work has enabled people to move to more affordable areas. The City of New York's metro area's high cost of living has contributed to a population decline in the region. The potential deportation of undocumented immigrants could further exacerbate the State's population loss and labor shortages. A long-term decline in population remains a significant downside risk to both employment and wages. However, if the City of New York's population loss is less than anticipated and immigration policy isn't as restrictive as expected, the City and State economy might benefit.

The combination of elevated interest rates and high office vacancy rates driven by remote work also presents an ongoing risk to commercial real estate property values. Increased delinquencies on commercial real estate loans could also create new challenges for the banking industry. A more substantial return to in-office work, particularly in densely populated urban areas like the City of New York, would likely benefit industries that cater to commuters, including business support services, office administration, food services, and other consumer-facing sectors.

Given that the U.S. economy ended 2024 on a strong note, a continuation of the growth momentum could support New York's economy. Additionally, stronger-than-expected global economic growth could boost tourism spending in the State, driving stronger performance in the leisure, hospitality, and tourism-related industries than is currently projected. However, if the U.S. dollar remains historically strong, job growth in sectors dependent on tourism, particularly in the City of New York, and exports could fall short of expectations.

There are also potential upside risks specific to New York. Recent State policy initiatives aimed at expanding housing supply, as well as investments in next-generation semiconductor research and production, and sectors using artificial intelligence, could have a lasting positive impact on the State's economy.

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