May 2024

Details on IBO's May 2024 Economic and Tax Revenue Forecasts

At the time of its January 2024 forecast, the Independent Budget Office (IBO) predicted a soft landing of the U.S. economy in which robust economic growth continued as inflation diminished and interest rates decreased. IBO's May 2024 forecast projects that the economy is still on the path to a soft landing, where inflation approaches the Federal Reserve's target level without causing a recession, although on a more delayed timeframe than previously expected, primarily due to stubbornly elevated inflation.[1] Despite a generally positive macroeconomic outlook, the City's economic growth is at risk of becoming constrained by the size of the labor force.

National Economy

Measured by real (inflation-adjusted) gross domestic product (GDP), the growth of the U.S. economy has been strong in the post-pandemic era, and IBO forecasts the continuation of robust growth. The economy grew by 2.5% in 2023, and IBO forecasts 2.6% real GDP growth this year. (Unless otherwise noted, all years in the economic forecast section refer to calendar years.) Yet the major macroeconomic indicator of concern remains inflation. Having peaked at nearly 9.0% (on an annualized basis) in mid-2022, inflation has slowed to 3.4% in the first quarter of 2024. This inflation rate remains above the Federal Reserve's 2.0% target level, and the Federal Reserve has postponed expected interest rate reductions in the immediate future.

A breakdown of the components of the Bureau of Labor Statistics (BLS) Consumer Price Index (CPI), a basic measure of inflation, reveals that large increases in the cost of food and fuel elevated the CPI to its highest levels in 2022. Recently, however, inflation in food, fuel, and many other goods and services has abated. Housing has reemerged as the primary driver of inflation, accounting for nearly 2 percentage points of the current 3.4% rate of inflation (see Figure 1).

Despite the persistence of moderately elevated inflation, IBO projects a path of macroeconomic growth similar to its forecast in January, though starting slightly later than previously projected. With inflationary pressures expected to wane over the coming year, IBO's forecast assumes that the Federal Reserve will begin to reduce interest rates later this year. Changes in interest rates by the Federal Reserve, however, typically do not have an immediate effect on the economy. IBO forecasts a dip in GDP growth in 2025 as result of the current high-interest rate environment, delaying some business investment and consumer spending. After 2025, a return to economic growth averaging around 2.1% annually is expected for 2026 through 2028. The largest contributor to GDP growth in IBO's projections is personal consumption expenditures, as it has been since the pandemic.

Local Economy

Fortified by solid national economic growth, increases in the number of jobs in the City have been notable, and earlier this year City employment reached 100% of its pre-pandemic level. Following a gain of more than 77,000 jobs last year from the final quarter of 2022 to the final quarter of 2023 (Q4 to

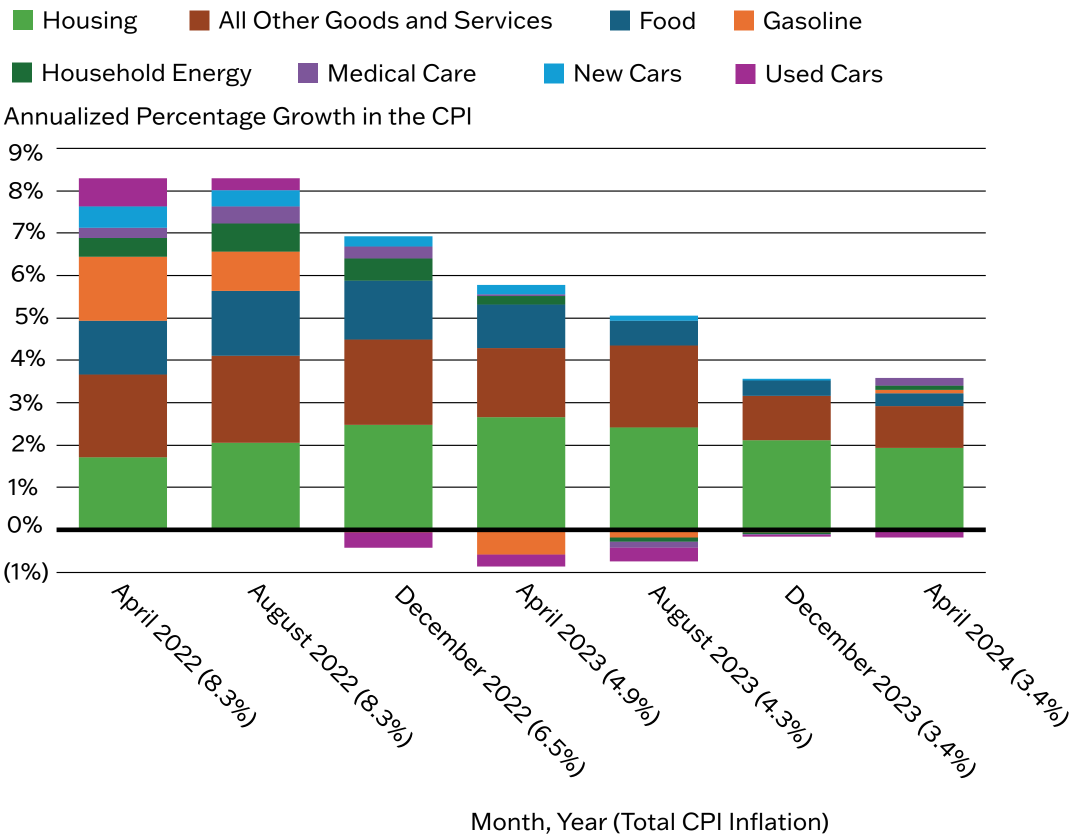
IBO
New York City
Independent Budget Office
Louisa Chafee, Director

110 William Street 14th Floor
New York, New York 10038

Tel. 212-442-0632
www.ibo.nyc.gov
press@ibo.nyc.gov

Figure 1

Housing Costs Are Main Drivers of Current Inflation in U.S. As Price Pressure On Food, Fuel, and Transportation Diminishes



SOURCE: Bureau of Labor Statistics

New York City Independent Budget Office

Q4), IBO projects that the City will gain over 91,000 jobs in 2024. According to preliminary seasonally adjusted data from BLS through April, 42,300 new jobs have already been added. However, the sectors for these new jobs yield a somewhat different mix than before the pandemic (see Figures 2 and 3).

A substantial amount of the growth in employment in recent years has been in the health care and human services sector, mainly concentrated in the ambulatory care subsector, which includes personal care and home health aides. Following multiple years of substantial growth, IBO projects that this sector will continue to add jobs, but not at the elevated levels seen in recent years. The demand for aides will continue as the population ages, but the supply of available workers is expected to be more constrained, limiting the number of anticipated matches in the labor market.

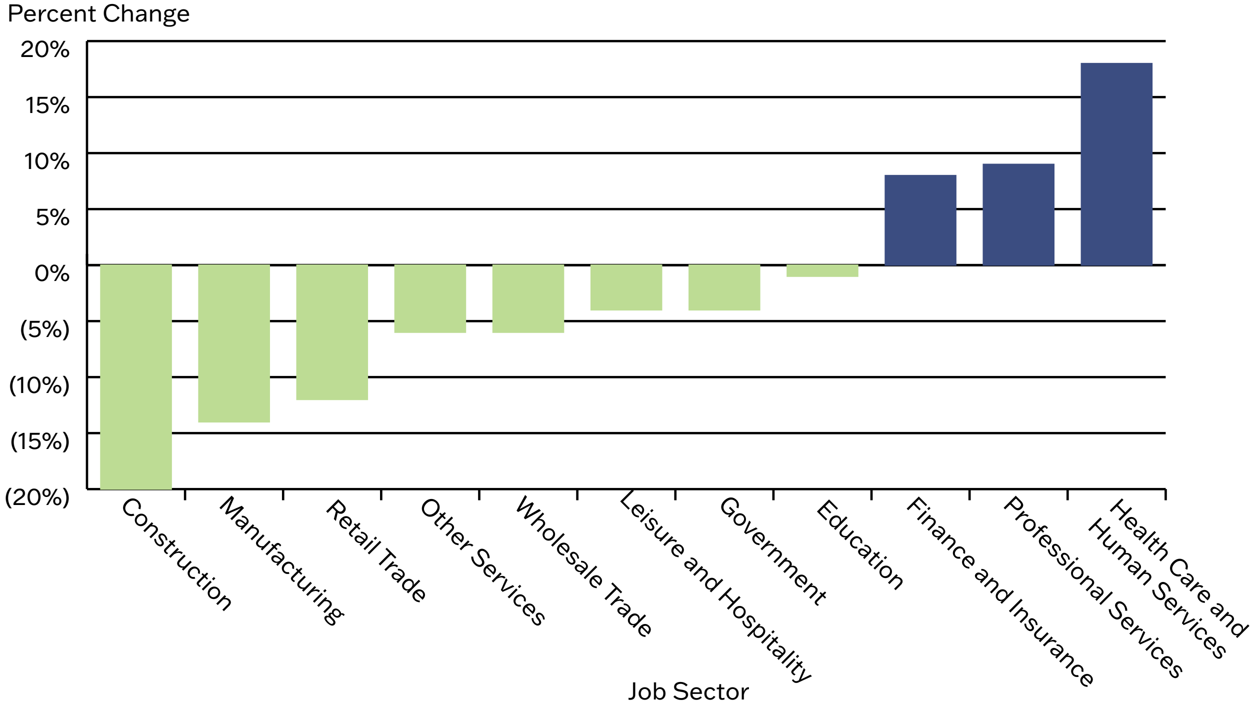
Certain high-wage sectors—such as the finance and insurance sector and professional services—weathered the pandemic relatively well largely because many jobs in these sectors could be performed remotely and did not experience drastic layoffs at the pandemic onset. This helped sustain gains in the City's aggregate wages and personal income. IBO projects that the finance and insurance sectors will contract in the current year but add jobs in the following year. Conversely, the high-wage information sector, which includes technology and entertainment jobs, has struggled recently due to disruptions such as layoff announcements and the residual impacts of the joint writers and actors strikes last year. These headwinds are expected to resolve in the near term, and IBO forecasts moderate growth to resume.

Certain lower-wage industries that provide key entry-level positions, such as leisure and hospitality and retail trade, remain well below their pre-pandemic employment totals. Looking forward, IBO projects the leisure and hospitality sector's recovery from the pandemic shutdowns will persist, as it expects tourism in the City to continue rebounding. However, IBO does not expect the retail sector to reach its pre-pandemic employment in the foreseeable future, in part resulting from shifts in consumer spending away from brick-and-mortar retail to greater proportions of online purchases. Furthermore, many office-using industries such as professional services, have adopted hybrid work schedules in recent years. This shift away from full-time office occupancy not only reduces demand for office

Figure 2

Post Pandemic Recovery: Job Growth Seen In Health Care and Key High-Wage Job Sectors While Others Still Lag Behind

Current Employment vs. Pre-Pandemic Employment



SOURCE: Bureau of Labor Statistics; IBO Seasonally Adjusted Job Seeker Data

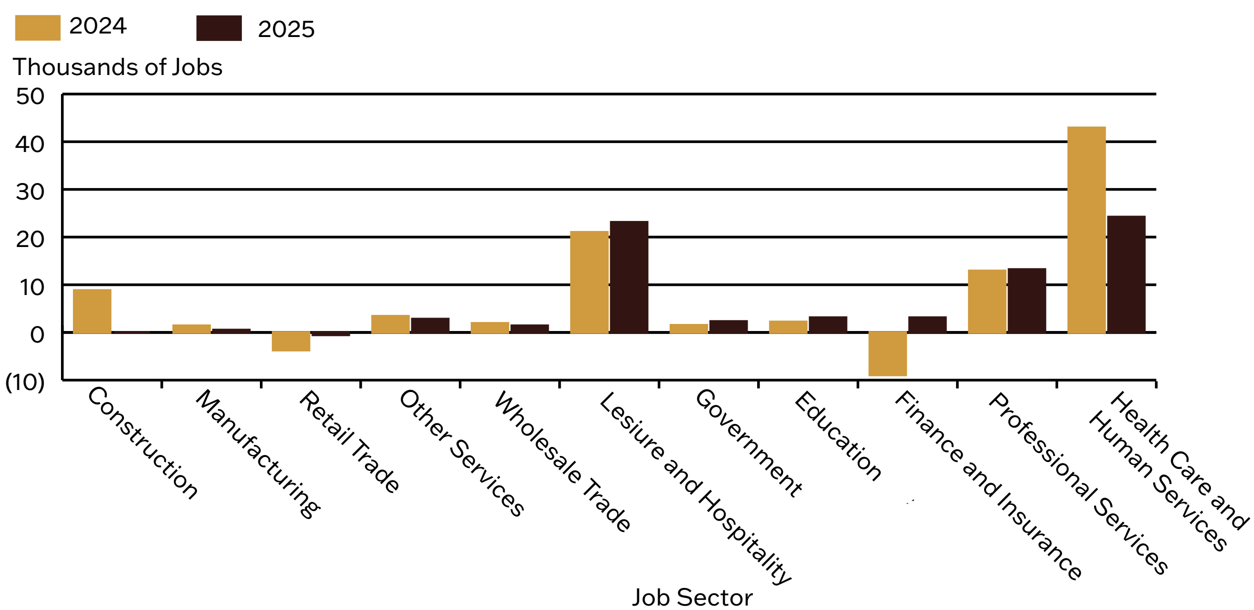
NOTES: Pre-pandemic employment refers to jobs in the first quarter of 2020. Current employment reflects jobs as of the first quarter of 2024.

New York City Independent Budget Office

Figure 3

Near-Term Job Growth Projected In Health Care, Leisure and Hospitality, and Professional Services Sectors

IBO Forecast of Job Gains for This Year and Next



SOURCE: IBO Economic Forecast

NOTE: Job gains measured on a Q4 to Q4 basis. Health Care and Human Services sector refers to the Bureau of Labor Statistics Health Care and Social Assistance sector.

New York City Independent Budget Office

space, but also various support industries such as retail stores and restaurants, which are a segment of the leisure and hospitality sector, that rely on large daytime populations in central business districts.

IBO forecasts that the construction sector will see some job gains this year, while leveling off next year. New housing production is expected to increase starting next year in response to the revival of the tax exemption for new construction housing included in Albany's recently enacted State Budget, termed 485-x. Other sectors such as manufacturing, wholesale trade, and educational services are expected to remain relatively constant, with minimal gains projected for this year and next.

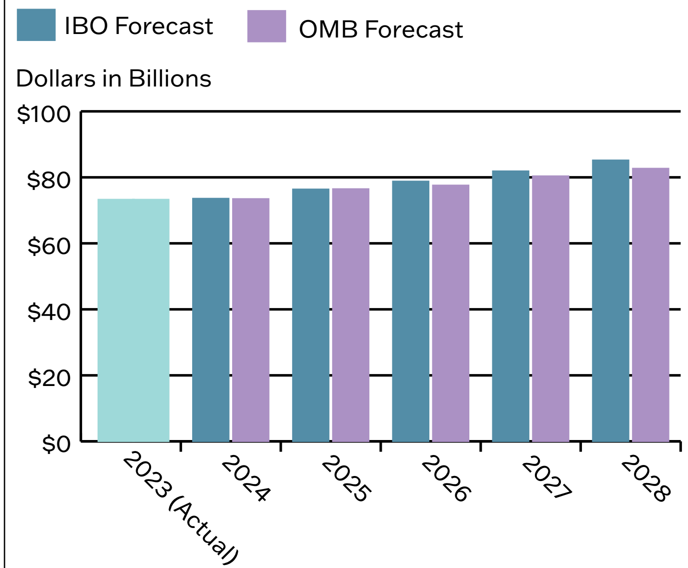
In addition to the concerns about the changing mix of jobs that are being created, the City also faces a constraint on its available labor force. The gradual decline of the City's population and an aging population leaving or close to leaving the labor force contribute to a tighter labor market. This in turn drives a decrease in the unemployment rate across IBO's forecast period, from 2024 through 2028. IBO projects the number of new jobs added in the coming years will decline over time, in part because the post-pandemic boom is fading, but also because the labor force is not growing enough to meet demand. Net in-migration will be critical to the City's economic stability going forward. The influx of asylum seekers arriving to the City in recent years may be a potential boost to the supply of workers in a tight labor market, although complications around asylum seekers' ability to access work authorization to participate in the formal economy is far from certain.

The stability of high-wage jobs during the pandemic, in conjunction with a stable outlook for Wall Street, indicates stability for the City's tax collections and finances in the short run. But the sectors adding jobs have fundamentally shifted in recent years, and these changes in the City's economy are well worth monitoring.

IBO Revenue Forecast

For the current fiscal year, IBO forecasts City tax revenues will total $73.6 billion, growing to $85.2 billion by 2028, as shown in Figure 4. (In the Revenue Forecast section, years refer to City fiscal years unless otherwise noted.) City tax revenues make up about two-thirds of total revenue to the City. The

Figure 4
Total Tax Revenue: IBO Estimates Greater Growth Than Administration Starting in 2026



SOURCE: IBO and OMB Tax Revenue Forecasts
New York City Independent Budget Office

largest shares of IBO's total tax forecast estimate are Real Property (44%), Personal Income (21%), General Sales (14%), and Corporate Taxes (9%), while the remaining taxes and audit revenue together reflect the remaining 12%.

Compared with its January 2024 forecast, IBO has modestly reduced its overall tax revenue forecast, in part due to inflation and interest rates remaining elevated for longer than had been anticipated. The Mayor's Office of Management and Budget (OMB), part of the Adams Administration (the Administration), in contrast, raised its overall tax revenue forecast substantially across the forecast period. The Administration increased its 2024 estimates by $1.9 billion and 2025 estimates by $3.3 billion compared with its November plan forecast. The result is that the present IBO and Administration's forecasts are remarkably close for 2024 and 2025—IBO's exceeding the Administration's by $129 million (0.2%) this year, and the Administration exceeding IBO's by $104 million (0.1%) next year. In future years, IBO projects stronger growth to resume, and total taxes are projected to exceed the Administration's forecast by $1.2 billion in 2026, growing to $2.5 billion in 2028. Despite the similarity of total tax revenue forecasts in the near term, the projections differ with respect to individual taxes, which are discussed in greater detail below.

Figure 5
Real Property Tax Class Descriptions

Class 1	One-, Two- and Three-Family Houses
Class 2	Apartment Buildings, Including Coops and Condos
Class 3	Utility Company Properties
Class 4	Commercial and Industrial Properties

New York City Independent Budget Office

Real Property Tax. Real Property Taxes (RPT) are paid by owners of real estate in New York City. The amount of tax owed depends on the Class (type) of property, its value for tax purposes, and the applicable tax rate. Under the State's Real Property Tax Law, there are four classes of property in the City (see Figure 5). IBO's forecast of RPT revenue this year is $32.8 billion (see Figure 6). IBO revised its May 2024 RPT estimate slightly upwards compared with its January forecast due to a series of small adjustments in forecasted reserve items, including a reduction in the projected costs of some tax abatement programs.

Based on the tentative assessment roll for 2025, IBO's forecasted growth in RPT revenue for 2024 and 2025 stems from increasing annual estimates of the gross tax levy, with almost 60% of that growth coming from Class 2 and Class 4 properties. (The gross tax levy is the total amount of tax liability for a fiscal year prior to deducting abatements.) IBO's estimate of Class 4 revenue growth from 2025 through 2028 incorporates a forecast of sluggish 2.0% annual growth in the assessed values of Manhattan offices, far below the pre-pandemic trend of 5.8% annual growth. For the remainder of the forecast period, IBO estimates RPT annual increases with revenue reaching $36.8 billion by 2028, consistent with IBO's expectations for growth in real estate assessed values for 2026 through 2028. IBO's RPT forecasts for these years assume greater growth in the aggregate value of real property in the City than the Administration's, which in turn drives greater gross levy projections.

Figure 6
Real Property Tax Revenue
Dollars in Millions

Forecast	2023 Actual	Fiscal Year 2024	2025	2026	2027	2028
IBO	$31,507	$32,754	$33,597	$34,350	$35,633	$36,817
OMB		32,786	33,700	34,306	35,334	36,016

SOURCES: IBO; OMB
New York City Independent Budget Office

Real Estate-Related Taxes. In 2024, IBO estimates $2.7 billion will be collected from the three real estate-related taxes—the Real Property Transfer Tax (RPTT), the Mortgage Recording Tax (MRT), and the Commercial Rent Tax (CRT). Figure 7 presents IBO's forecast compared with the Administration's for these three taxes.

Real Property Transfer Tax. Paid by the seller, RPTT liabilities are based on the sale prices of real estate transactions. In addition to sales prices, the City's RPTT revenue fluctuates based on the volume of transactions, in particular large commercial sales. IBO's forecast for 2024 RPTT revenue is $1.2 billion, 38% less than the record amount of RPTT collected by the City in 2022, when real estate sales boomed following their pandemic-related downturn, and 24% less than collections in 2019, the last year prior to the pandemic.

IBO forecasts a rebound of revenue in 2025, to $1.3 billion, and slower growth in the following years, with collections reaching $1.6 billion in 2028, comparable to pre-pandemic levels. While IBO's forecast for RPTT collections is similar to the Administration's in 2024, starting in 2025, IBO forecasts a quicker recovery from the current slump in real estate markets tied to elevated mortgage rates, with IBO's forecast exceeding the Administration's by an average of $195 million in 2026 through 2028.

Mortgage Recording Tax. The MRT is a one-time tax paid by mortgage holders based on the size of their mortgages on real property, including refinancings. IBO forecasts $639 million in 2024 MRT revenue, the lowest amount since 2012. Increases in fixed mortgage rates starting at the beginning of calendar year 2022 have brought rates to highs not seen in over 20 years; they are projected to lead to a drastic reduction in MRT collections in the near term. The greater fall in the MRT relative to the RPTT is partly explained by a notable increase in all-cash transactions, particularly in Manhattan.

The expectation that mortgage rates will stabilize and perhaps fall slightly

Figure 7
Real Estate-Related Taxes Revenues
Dollars in Millions

Tax	Forecast	2023 Actual	Fiscal Year 2024	2025	2026	2027	2028
Real Property Transfer	IBO	$1,277	$1,182	$1,342	$1,510	$1,603	$1,636
	OMB		1,150	1,279	1,316	1,389	1,459
Mortgage Recording	IBO	898	639	768	923	1,034	1,103
	OMB		578	687	771	884	927
Commercial Rent	IBO	910	910	925	$952	969	978
	OMB		915	939	955	969	980

SOURCES: IBO; OMB

New York City Independent Budget Office

through the next calendar year generates favorable conditions for a resumption of MRT growth in 2025, followed by a stronger rebound by 2028. As with the RPTT, IBO forecasts a faster rebound than the Administration. Given the level of uncertainty over when, and by how much, the Federal Reserve will lower interest rates going forward, estimating RPTT and MRT—taxes highly sensitive to the momentum, or lack thereof, in the real estate market—is a challenge.

Commercial Rent Tax. The CRT is imposed on rent payments made by large commercial tenants in Manhattan properties south of 96th Street. Because these tenants usually sign ten-year leases, CRT collections tend to remain relatively predictable from year to year. Reflecting continued weakening of demand for commercial space in Manhattan in the wake of the Covid-19 pandemic, however, IBO forecasts average annual CRT increases of 1.8% in 2025 through 2028—far slower compared with the 4.6% average annual growth seen in the decade prior to the pandemic. IBO's estimates for CRT revenue are similar to the Administration's.

Personal Income Tax and PTET. Personal Income Taxes (PIT) are withheld from employees based on their current earnings. Created by New York State, the Pass Through Entity Tax (PTET) is a workaround to the federal cap on the amount of state and local taxes that are eligible for federal income tax deduction, shifting income tax liability of some taxpayers from PIT to PTET but not affecting the amount of City tax revenue. IBO forecasts $15.8 billion in combined PIT and PTET collections for 2024 (see Figure 8). In its May forecast, IBO lowered its 2024 PIT estimates compared with its January forecast, due to an increase in both the number and size of PIT refunds and decreases in quarterly estimated installment payments.

Despite lower forecast amounts in the near term, IBO's forecast of steady employment and personal income gains in the coming years underlies its projected growth in combined revenue from the PIT and PTET. Withholding growth accounts for about half of the projected PIT increase in 2025. Estimated payments are also expected to increase strongly in 2025 and in the following years, especially in 2027, after the federal limitations that led to the use of PTET are set to expire.

Compared with the Administration's projections, IBO's forecast of combined PIT and PTET revenue is $209 million lower in 2024, mostly due to IBO's higher forecast of refunds. After 2024, IBO's projections generally grow at a faster annual rate relative to the Administration's, reaching $697 million above the Administration's forecast in 2028. Higher amounts of personal income in IBO's economic forecast underlie the difference.

General Sales Tax. The General Sales Tax is paid by consumers for many services and most goods, based on the amount purchased. Sales tax revenue to date in 2024 has met prior expectations, and IBO's forecast remains $10.0 billion for the current year (see Figure 9.) Continued local employment growth and increasing numbers of visitors to the City have sustained consumer spending, mitigating

Figure 8
Personal Income Tax (Including PTET) Revenue
Dollars in Millions

Forecast	2023 Actual	Fiscal Year 2024	2025	2026	2027	2028
IBO	$17,183	$15,792	$17,033	$17,687	$18,683	$19,834
OMB		16,001	17,284	17,474	18,401	19,137

SOURCES: IBO; OMB

New York City Independent Budget Office

Figure 9
General Sales Tax Revenue
Dollars in Millions

Forecast	2023 Actual	Fiscal Year 2024	2025	2026	2027	2028
IBO	$9,540	$10,045	$10,378	$10,802	$11,173	$11,540
OMB		9,967	10,371	10,822	11,238	11,726

SOURCES: IBO; OMB
New York City Independent Budget Office

the effect of higher interest rates on consumption. IBO expects the projected slowing of the national and local economies after 2024 to reduce growth in sales tax revenue, yielding $10.4 billion in 2025 and an estimated $11.5 billion by 2028.

Corporate Taxes. The City imposes a tax on the profits of corporations through three mechanisms, the Business Corporation Tax for C-corporations, and the General Corporation Tax and Banking Corporation Tax for S-Corporations. Collections of combined corporate taxes over 2024 have tracked IBO's expectations in the January 2024 forecast and are estimated to total $6.5 billion for the year, as shown in Figure 10. IBO's forecast of increasing annual collections continues the trend of consistent annual growth seen for the past six years. IBO adjusted its estimates for future years moderately upwards since its January forecast, largely due to a slightly stronger outlook for national corporate profits than previously anticipated.

Previous forecasts of corporate tax revenue have anticipated a decline to occur at some point, although this long-awaited development has yet to materialize. The contraction would reflect losses incurred during the pandemic and carried forward according to accounting rules. IBO's forecast anticipates this contraction will happen in 2025, while the Administration predicts continued growth into 2025 before a contraction in 2026. Despite these timing differences, however, IBO's forecast amounts for this year and next are similar to the Administration's projections, followed by a period where IBO projects more solid growth in corporate tax revenue than the Administration.

Unincorporated Business Tax. The City's Unincorporated Business Tax (UBT) is imposed on the profits of businesses operating within the City that are organized in a form other than a corporation, such as sole-proprietorships, partnerships, and limited liability companies. Based on collections to date in the current fiscal year, IBO projects a strong increase in UBT revenue over last year, generating $2.7 billion in 2024. IBO expects UBT collections to continue growing at a more moderate pace in 2025 and beyond, yielding $2.8 billion next year and reaching $3.1 billion by 2028 (see Figure 10). IBO's forecast remains above the Administration's by an average of $181 million each year from 2025 through 2028.

Hotel Occupancy Tax. The Hotel Occupancy Tax is paid by individuals who stay in hotel rooms, based on the amount of money the occupant pays the hotel operator, including service fees. IBO forecasts $715 million in hotel tax collections in 2024, 11% more than receipts last year. For 2025, IBO forecasts continuing growth through 2028 (see Figure 11).

Although a small revenue source for the City, the Hotel Occupancy Tax is a direct reflection of the tourism and travel industry, a major source of employment for the City. The strong recovery of tourism after its near collapse during the Covid-19 pandemic has swelled revenue from the Hotel Occupancy Tax. IBO expects the number of visitors to the City to continue increasing. The growth in international tourism has been hindered by the strength of the U.S. dollar and slower economic recoveries from the pandemic in many countries. Nevertheless,

Figure 10
Business Tax Revenue
Dollars in Millions

Tax	Forecast	2023 Actual	Fiscal Year 2024	2025	2026	2027	2028
Corporate	IBO	$5,974	$6,525	$6,397	$6,413	6,513	$6,758
	OMB		6,439	6,507	6,074	6,136	6,246
Unincorporated Business	IBO	2,545	2,748	2,818	2,917	3,016	3,122
	OMB		2,630	2,669	2,758	2,828	2,893

SOURCES: IBO; OMB
New York City Independent Budget Office

Figure 11
Hotel Occupancy Tax Revenue
Dollars in Millions

Forecast	2023 Actual	Fiscal Year 2024	2025	2026	2027	2028
IBO	$645	$715	$740	$775	$802	$831
OMB		713	743	764	783	836

SOURCES: IBO; OMB
New York City Independent Budget Office

Figure 12
Cannabis Tax Revenue
Dollars in Millions

Forecast	2023 Actual	Fiscal Year 2024	2025	2026	2027	2028
IBO	$1	$3	$12	$30	$36	$37
OMB		5	10	20	28	30

SOURCES: IBO; OMB
New York City Independent Budget Office

as economic gains continue to be made internationally, IBO projects that the pre-pandemic peak of international tourism will be surpassed in the next two years. In addition to the number of visitors needing accommodations, hotel tax collections are determined by hotel room rates, and room rates have been rising—by 11% in 2023, to reach $297 a night on average.[2]

Cannabis Tax. New York City's Cannabis Tax is paid by consumers on sales at licensed retail cannabis dispensaries in lieu of the City's General Sales Tax. New York State's slow rollout of licensed retail shops has kept Cannabis Tax revenue well below levels previously forecasted by IBO for 2024. Since its January forecast, IBO revised its forecast downward, and now projects only $3 million in revenue for this year, making cannabis one of the City's smallest sources of tax revenue.

Nevertheless, IBO forecasts the Cannabis Tax will rapidly increase, up to $37 million through 2028 (see Figure 12), for several reasons. The number of authorized retailers—which collect the tax—is expected to continue to increase as licenses are approved and retail shops are established. Also, the State's most recent budget included provisions to allow local law enforcement to shut down unlicensed shops. IBO expects increased local law enforcement to reduce the number of unlicensed retailers, steering more purchases to licensed retailers, boosting the amount of Cannabis Tax collected.

Endnotes

[1]This report provides details on IBO's May 2024 economic and revenue forecasts to accompany IBOs broader analysis of the 2025 Executive Budget and Financial Plan.
[2]New York City Tourism and Conventions, "Annual Report 2023," Annual Report 2023–24 | New York City Tourism + Conventions (nyctourism.com).

This report was supervised by Michael Jacobs and Sarah Parker with report production by Tara V. Swanson. Contributors to this report include: Richard DiSalvo, Benjamin Ferri, Julie Anna Golebiewski, Eric Mosher, Cole Rakow, Sarah Sayavong, and Jacqueline Sherman.

Please direct any inquiries on this report to press@ibo.nyc.gov.