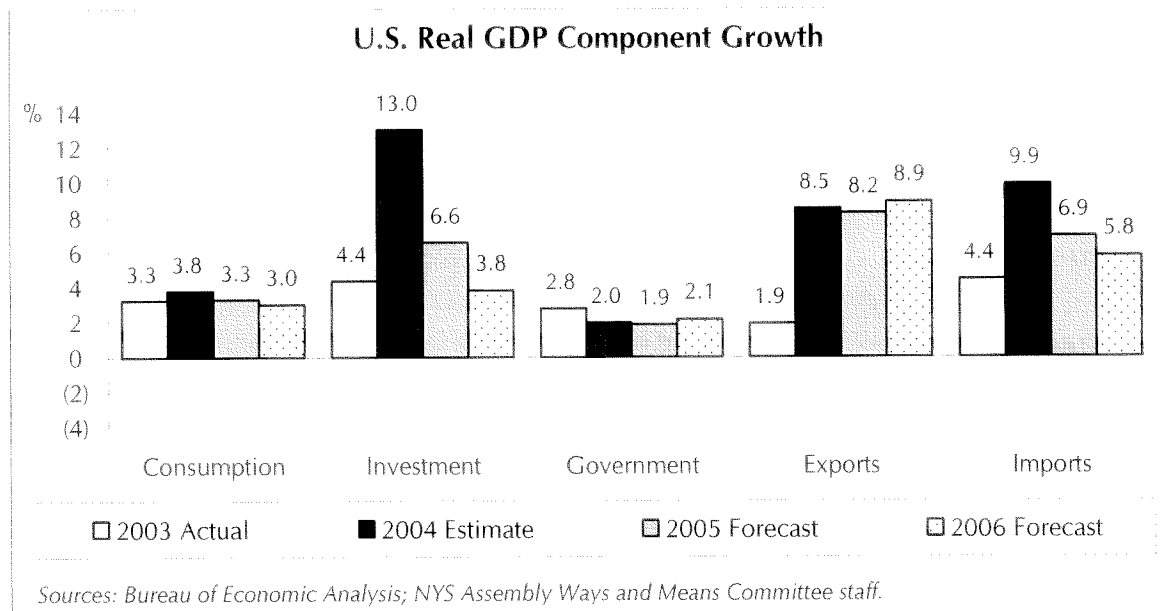


ECONOMIC OVERVIEW

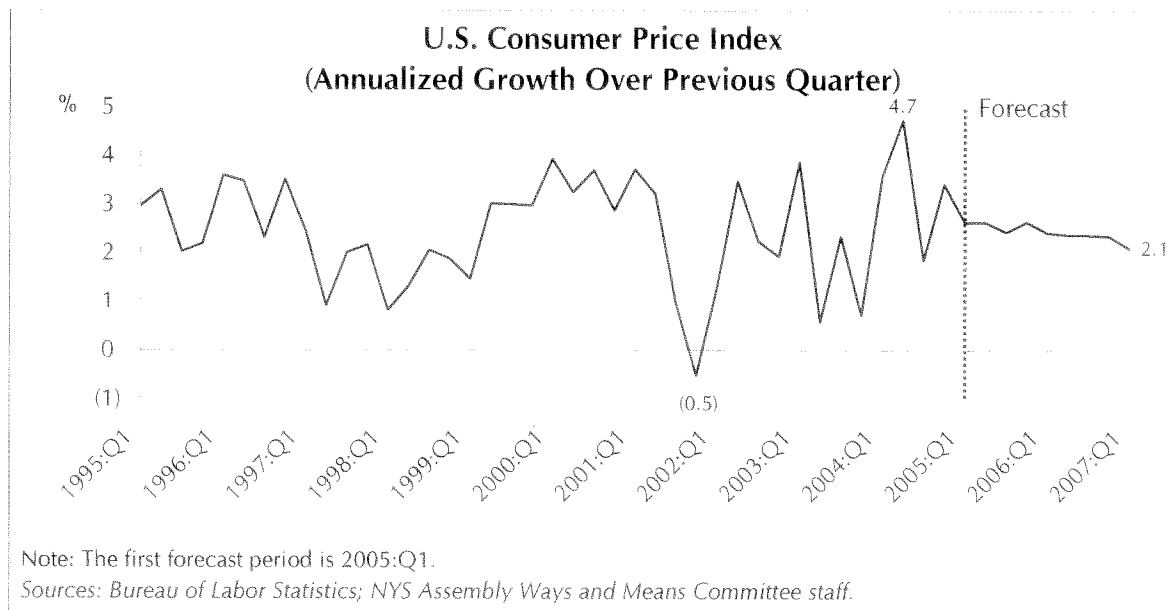
United States

- Economic expansion is expected to continue into 2005 and 2006, with the economy growing at a rate close to the long-term trend rate of 3.5 percent.
- The NYS Assembly Ways and Means Committee staff estimates that national economic growth, as measured by real Gross Domestic Product (GDP) growth, accelerated to 4.4 percent during 2004. Real GDP will continue to grow in 2005 and 2006, due in large part to robust consumption spending as well as a big swing in investment spending compared to 2001-03.
- The NYS Assembly Ways and Means Committee staff estimates that personal consumption spending growth increased to 3.8 percent during 2004 following the 3.3 percent growth in 2003. Due in part to continued employment recovery and personal income growth, personal consumption spending is forecast to continue to grow at a rate of 3.3 percent year-over-year in 2005 and 3.0 percent in 2006.



- The NYS Assembly Ways and Means Committee staff forecasts that investment spending will continue to expand in 2005, growing 6.6 percent year-over-year after increasing an estimated 13.0 percent in 2004 and 4.4 percent in 2003. It is forecast to slow to 3.8 percent in 2006. Factors contributing to the continued recovery in business investment include: strong growth in corporate cash flow, continued favorable financing conditions, and rising capital goods orders.

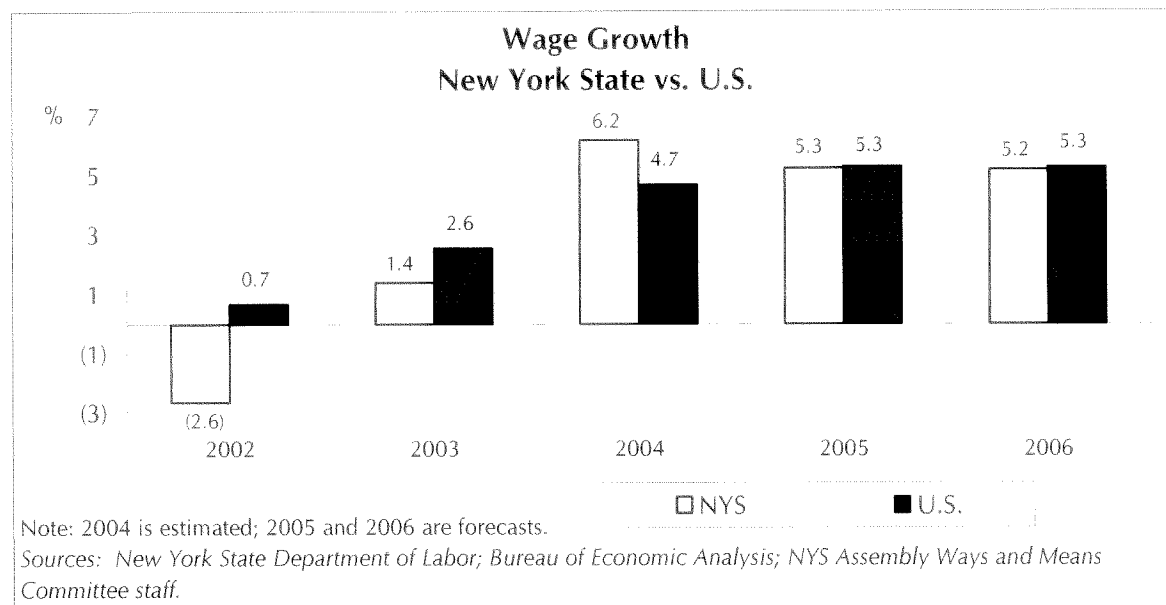
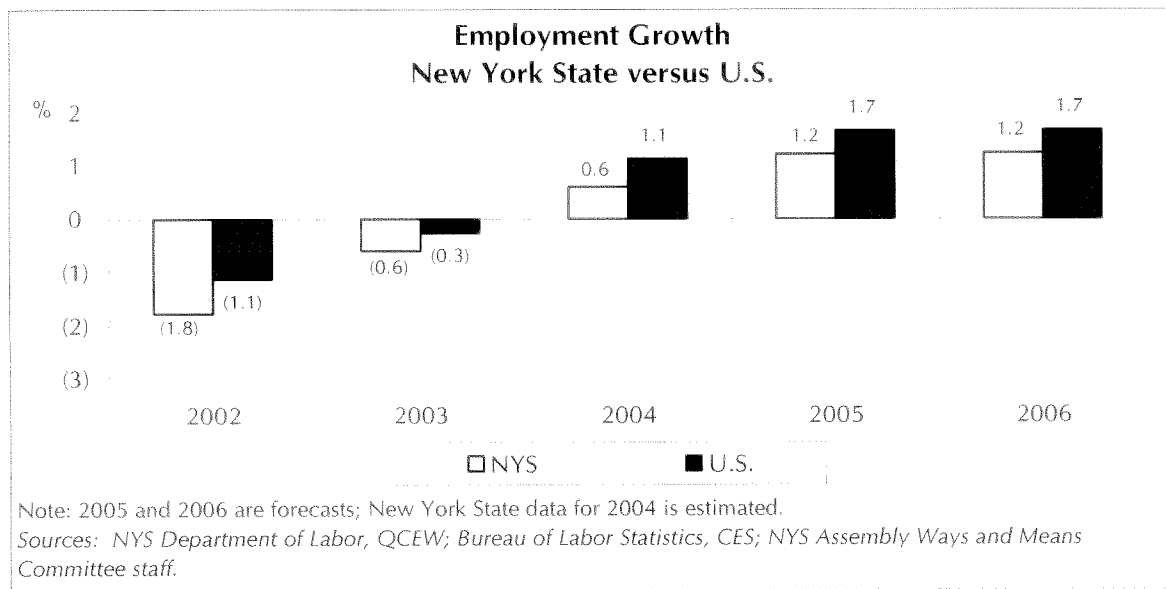
- U.S. employment growth is expected to modestly strengthen in 2005 and 2006 after growth of 1.1 percent year-over-year in 2004.
- The NYS Ways and Means Committee staff predicts that consumer prices will increase 2.8 percent year-over-year in 2005 and 2.5 percent in 2006. Increases in consumer and producer prices in 2004 were driven by volatile energy prices and a weakening dollar, while most other prices remained relatively stable.



- High energy prices continue to remain an issue for the United States economy. The varied and unpredictable nature of the factors influencing energy prices adds to the difficulty of reliably predicting future price movements. This uncertainty (as well as the current high price) can be a drag on economic growth and adds to the uncertainty in the forecast.
- The price of oil has increased in the past two years to historic nominal highs. However, if the price of oil is adjusted for inflation, oil prices are not as high as in the early 1980s.

New York State

- The New York State economy continues to lag the United States economy in terms of employment growth. However, the State will continue to benefit as the nation maintains an expansion. Both employment and wages are expected to grow in 2005 and 2006.
- The recovery in New York State employment is expected to strengthen in 2005; employment is expected to grow 1.2 percent in 2005 and 2006 compared to 0.6 percent in 2004. The education and health sector will create the largest number of jobs in 2005.



- Growth in the service-producing industries is providing the majority of the growth to New York State wages. In particular, the education and health sector grew faster than any other sector in 2003.
- The NYS Assembly Ways and Means Committee staff estimates that New York State total variable compensation, which was \$32.1 billion or 8.3 percent of total State wages in 2003, increased by 33.3 percent to \$42.8 billion for 2004. Variable compensation growth will be 9.5 percent in 2005 and 8.9 percent in 2006. Securities industry growth and particularly strong Mergers and Acquisitions activity will help boost variable compensation.

