ECONOMIC FORECAST

INTRODUCTION

This section of the budget provides a survey of economic indicators and an outlook for the year ahead with a view to providing context for some of the estimates contained in the budget.

NATIONAL OVERVIEW

Overall, the national economic outlook is mixed, with recovery slowing in recent months. National job growth and labor income remain constrained. The national housing market has not fully recovered, although it is improving at a steady pace. Going into the coming year, the following uncertainties may serve to undermine future economic growth - significant tax increases are set to take effect on January 1, 2013, along with substantial decreases in Medicare reimbursement rates; expiration of the social security tax reduction and the automatic decrease in federal expenditures better known as sequestration. Depending on the outcome of these unknowns, the Congressional Budget Office (CBO) has forecast quarterly Gross Domestic Product (GDP) to grow by as much as 1.7 percent in the fourth quarter of 2013 over the fourth quarter of 2012, or actually decline by as much 0.5 percent. Likewise, national unemployment is forecast to be between 8 or 9 percent, depending on federal action.

The national unemployment rate at the end of August was 8.1 percent, down from a high of 10.0 percent in October of 2009, but still above historical averages (US Bureau of Labor Statistics).

REGIONAL AND LOCAL ECONOMY

August figures from the United States Bureau of Labor Statistics report 2,100 private sector jobs were added in the Albany region between July 2011 and July 2012, for 0.5 percent growth. A positive sign, but still below growth levels needed to restore employment to 'healthy' levels.

While the national housing market experienced a series of unprecedented growth followed by devastating decline, the local housing market remained relatively stable. Local home sales did not over accelerate in the pre-recessionary market and generally remained in-line with actual value. Both average residential sale price and median residential sale prices remain relatively constant in the past 3 years within Albany County.

According to Greater Capital Area Realtors, there has been a 4 percent increase in real estate sales activity in July 2012 compared to July 2011, while median sales prices have increased by 4 percent. However, a more telling and positive trend shows that through the first seven months of 2012, total sales are up 12 percent over the same period last year. However, elements of the commercial real estate sector are showing signs of weakening. A survey conducted by Cresa noted that the regional Class A rental rate has declined for 3 successive quarters, beginning with the last quarter of 2011. Meanwhile, "Class A downtown vacancies declined slightly for a second quarter while the suburban Class B vacancy rate rose by 21%(Cresa)." Of note, as State and local governments continue to combine and re-align office locations, additional commercial rental vacancies will increase.

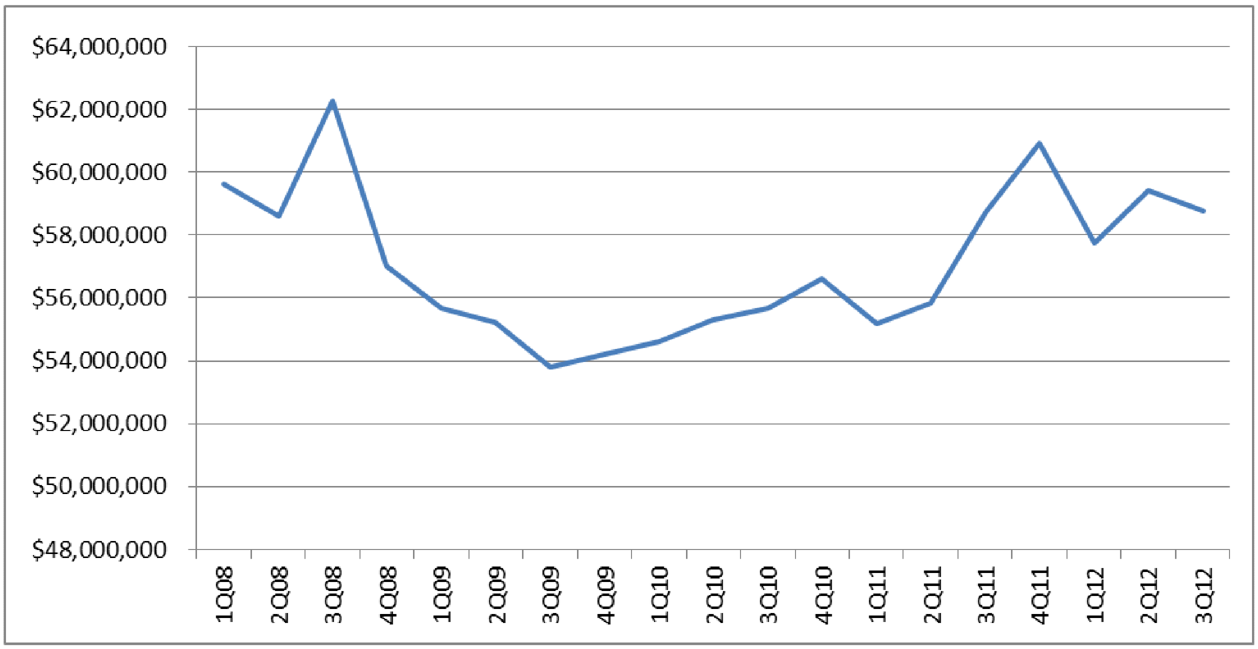
The Capital Region, Albany County specifically, has traditionally been dependent on government, healthcare and education for employment. These sectors are traditionally less volatile than other employment segments, insulating Albany County from many global economy-related job losses. The negative impact the recent economy has had on state and local governments has changed that dynamic. With a significant curtailment in State government hiring and a general freeze in wages for many state and local government employees, the local economy has suffered. Fortunately, recent private investments in the local economy and promises of new investments reposition Albany County and the Capital Region in terms of private sector employment. Current trends point to a baseline adjustment of the long-term employment and economic trends in the region, shifting away from heavy reliance on state government jobs as the high technology sector grows, while the traditional dependence on the health and education sectors continue.

ECONOMIC FORECAST

SALES TAX RECEIPTS

Within Albany County, the largest source of revenue is sales tax receipts. Sales tax revenue decreased sharply in recent years impacting local government cash flow. Consecutive years in which sales tax receipts were substantially lower than anticipated resulted in the need for the County to borrow money through the issuance of a Tax Anticipation Note (TAN) to provide sufficient cash to meet ongoing obligations.

However, Albany County sales tax revenue has increased by approximately 3.6 percent through the first three quarters of the fiscal year. This builds on annual growth in 2011 of approximately 3.8 percent. However, as can be seen in the graph below, Albany County quarterly sales tax collections still have not recovered to the collection levels of the first half of 2008. Also, the spike in the third and fourth quarter of 2011 were the result of increased economic activity directly related to the devastation and requisite rebuilding that took place following hurricanes Irene and Lee.



Given the year-to-date growth, and expectations for a continually tepid economic recovery, this budget includes growth in 2013 of 6 percent over the amount budgeted for 2012, but only 3 percent above the current estimate for 2012 collections.

CONCLUSION

While the National economy is in the midst of recovering from the economic recession of 2007, serious constraints still persist on Albany County. Federal and state financial support is limited, while demand for County services continues to grow. But despite these headwinds, the outlook for Albany County's Budget has significant positives.
The recession was not as severe in Albany County, the housing market was not as overvalued and unemployment compares favorably to much of the nation. Likewise, newly announced investments and ongoing construction projects currently underway will help to rejuvenate our economy.