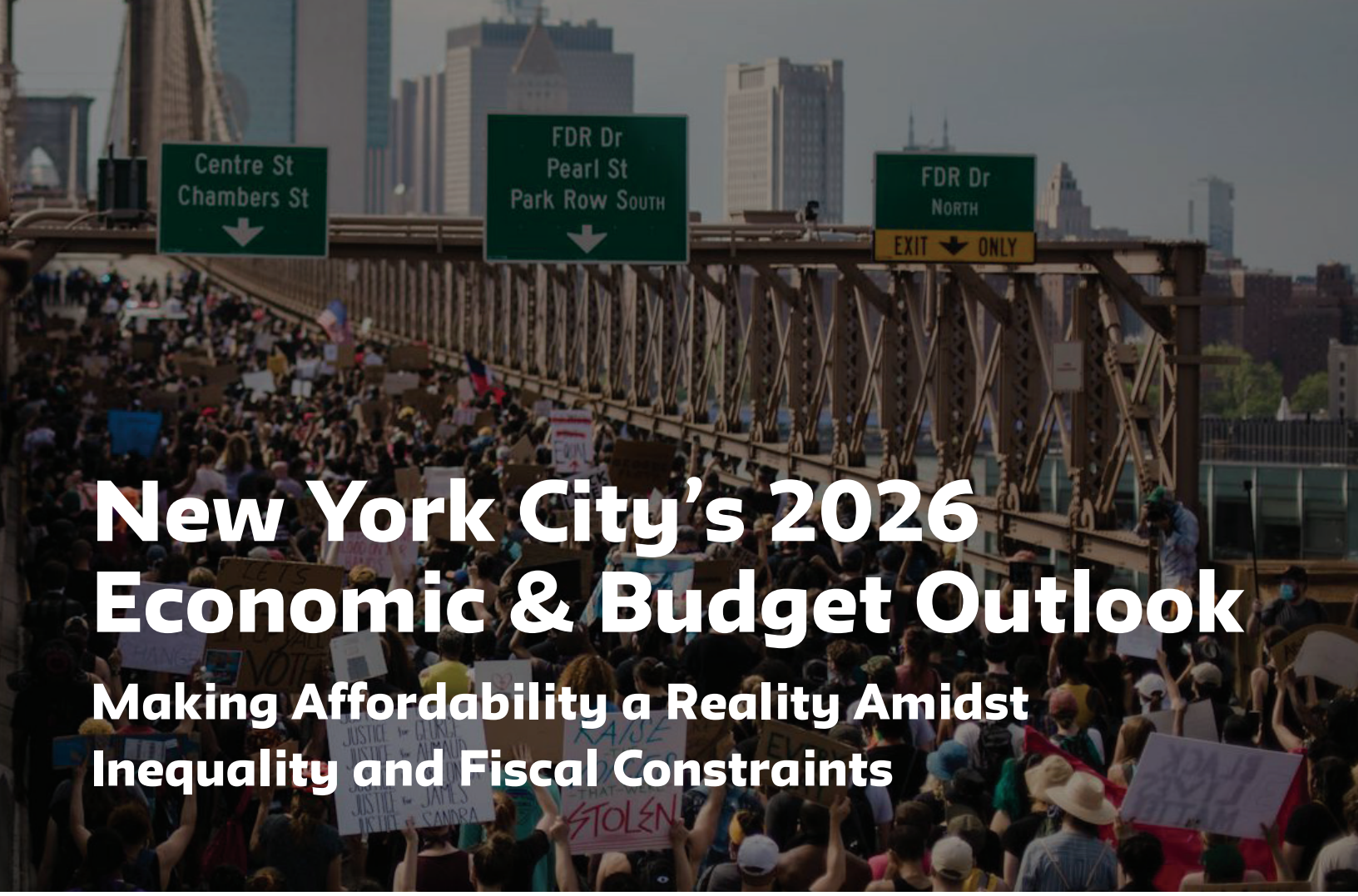


New York City's 2026 Economic & Budget Outlook

Making Affordability a Reality Amidst Inequality and Fiscal Constraints

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THE NEW SCHOOL
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EXECUTIVE SUMMARY

New York City is looking towards 2026 with hope, after one of the most exciting and consequential local election campaigns seen in decades. Much of that hope stems from the fact that incoming Mayor Zohran Mamdani combined a recognition of the broad affordability crisis facing New Yorkers with a bold policy agenda, making transformative change and relief feel truly possible.

But the incoming mayor will be starting with a particularly challenging economy and fiscal policy constraints, due to both longstanding inequities and the Trump administration's actions in 2025. New York City is already the most economically unequal city in the country. It is home to both some of the nation's wealthiest people and also has a large percentage of residents living in poverty, due to persistent unemployment and low-wage jobs. Over the past year, the Trump administration and Congress have exacerbated that inequality and created more challenging economic conditions and fiscal policy constraints for local policymakers.

In this report, "New York City's 2026 Economic & Budget Outlook: Making Affordability a Reality Amidst Inequality and Fiscal Constraints," the Center for New York City Affairs (CNYCA) provides insight on the challenges incoming Mayor Mamdani, Governor Kathy Hochul, and the City and State legislative branches face. We find:

Economic Outlook: Key Findings

New York City's economy slowed in 2025, but has proven more resilient than other parts of the country. The city's economy is expected to face continued slow growth or a possible contraction in 2026.

- Measured by private sector payroll jobs, the city's economy grew 0.7 percent from January to September 2025, slower than its 1.6 percent growth during the same period in 2024.[1] The city's job growth was better than the nation's and that in many other large metropolitan statistical areas (MSAs) in the country, some of which experienced declines in 2025.
- New York State is "treading water," meaning the state is already experiencing a significant economic contraction.[2] Over half of U.S. states are currently at risk of recession or are similarly "treading water."
- U.S. real GDP growth in 2025 has been markedly volatile, a reflection of many federal policy actions–from tariff increases to aggressive and deliberately cruel deportation efforts–which are impacting all facets of the economy.

1. New York City Office of Management and Budget, NYC Employment Data (Seasonally Adjusted), September 2025, December 11, 2025.
2. Mark Zandi, "23 States in Recession Reveal Fragility of the U.S. Economy," LinkedIn, October 22, 2025.

New York City job growth continues to be concentrated in a few industries, which impacts labor market and wage inequality as well as local tax revenue.

- From January to September 2025, the city netted 25,684 non-farm payroll jobs. However, most sectors of the economy—with the exception of health care and social assistance, government, and warehousing—had zero or negative job growth in 2025.
- Despite the Trump administration's gutting of the public sector, New York City did not experience a decline in government jobs as of September 2025. However, public and private sector jobs in New York City are at risk as a result of the One Big Beautiful Bill Act (OBBBA) which became law in July 2025. For example, one in five payroll jobs in the city is in health care and social assistance, where Medicaid access – which OBBBA will curtail – contributes to demand for services.
- 2025 was another strong year for the city's tech sector and for Wall Street, where profits could reach $60 billion in 2025, a historic record. However, that success is largely connected to artificial intelligence (AI), a factor which also exposes the city to a variety of risks. AI investments will not only have future labor market impacts, but also create boom-bust dynamics. If the AI bubble were to collapse, resulting income and investment losses on Wall Street would have a direct impact on City services and programs. The City and State receive substantial personal income tax (PIT) revenue from Wall Street salary and bonus income.

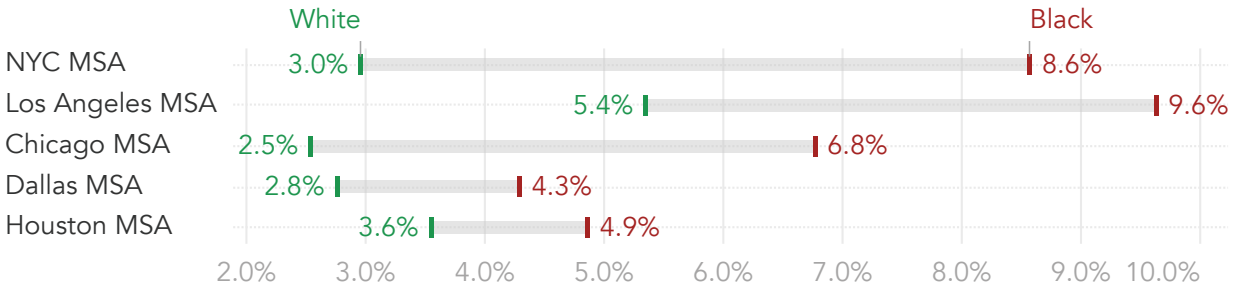
New York City shows deepening signs of labor market inequality, negatively impacting workers of color.

- The NYC-NJ MSA has the largest Black-white prime age (25-54) unemployment rate gap in the country, a key indicator of labor market inequality. (See Figure 1.)
- As of the third quarter of 2025, white men and – especially – white women were doing well compared to the same period in 2024, and to before the pandemic. The stability of white workers in the face of a sluggish and uncertain economy is distinct from the experiences of workers of color.
- Women of color have experienced post-pandemic increases in employment rates, but with more volatility. Men of color, on the other hand, have all experienced a decline in their employment rate, comparing 2020 to today. Concentration of job growth in traditionally female-dominated industries, like health care, and job decline in male-dominated fields, like construction, only partially explain these gendered outcomes for workers of color.
- Dramatic shifts in Hispanic men's and women's labor force participation rate reflect the economic impact of the Trump administration's deliberately cruel deportation efforts, which have disproportionately targeted Hispanic men. Additionally, non-citizens also dropped out of the labor force significantly over the past year, potentially reflecting a range of issues, from difficulties obtaining visas to the chilling effect of deportation actions.
- The employment rate of people holding a bachelor's degree dropped 3.6 percentage points over the past year. In the face of economic and federal funding uncertainty, firms may be operating under a "last hired, first fired" approach. This approach has historically disproportionately impacted Black workers.

Figure 1

NYC metro area Black-white unemployment rate gap is the highest of major U.S. metro areas

Q3 2025 prime age (25-54) unemployment rate, 4-quarter moving average



Source: CNYCA analysis of Bureau of Labor Statistics, Current Population Survey

Poverty and Inequality Exacerbated by OBBBA: Key Findings

With a higher poverty rate than the state and the country, New York City is one of the most exposed places in the U.S. to OBBBA changes to health insurance and SNAP eligibility.

- OBBBA changes to health insurance and SNAP target low-income and immigrant households, including 2.9 million New York City residents who live below 200 percent of the Federal Poverty Line (FPL).
- In January 2026, OBBBA's cuts to the Essential Plan, a New York State health insurance program for low-to-moderate income residents who don't qualify for Medicaid, will place an estimated 134,114 low-income New York City documented non-citizens at immediate risk of losing coverage. An additional 303,123 documented non-citizens will be moved onto State Medicaid, as required by the State Constitution.[3]
- In March 2026, work requirements go into effect for Supplemental Nutrition Assistance Program (SNAP) recipients who are able-bodied adults without dependents (ABAWD), putting roughly 230,000 recipients at risk of losing SNAP benefits in 2026.[4]
- In 2027, work requirements will go into effect for an estimated 725,702 New York City Medicaid recipients, putting them at direct risk of losing Medicaid coverage.

3. CNYCA analysis of Governor Kathy Hochul, "Governor Hochul and House Democratic Leader Hakeem Jeffries Warn of Detrimental Impacts of President Trump's One Big Ugle Bill," June 1, 2025.
4. Office of the New York City Comptroller, New York by the Numbers: Monthly Economic and Fiscal Outlook (No. 107), November 13, 2025.

New York City has the highest income inequality of any major U.S. city, which will only be exacerbated by OBBBA income tax changes.

- New York City's high and rising Gini coefficient (a standard measure of income inequality) indicates an increasingly polarized income structure, where the gains of economic growth are concentrated among a relatively small share of residents. This growing inequality is driven by strong wage growth among the top three percent of wage earners (those earning $312,000 or more in 2024 before taxes) compared to the rest of workers.[5]
- These dynamics contributed to a 4.9 percent decline in real median household income in New York City from 2019 to 2024. This is opposite the national trend, where real median household income increased 0.9 percent during the same period. None of the nation's other 10 largest cities experienced a statistically significant decline in inflation-adjusted median household income during this time.[6]

  OBBBA income tax and benefit changes will result in the low-income households, with an average annual income of $38,840, experiencing an annual after-tax income loss of $1,200 going into effect in 2026. Households with an average income of $517,700 will experience an annual after-tax income gain of $13,600. (See Figure 2.)

Figure 2

Distributional Effects of OBBBA on Households

Income Decile	Average Household Income	Change in After-tax Income
1st (bottom)	$38,840	–$1,200
5th	$105,480	$800
6th	$122,120	$1,200
10th (top)	$517,700	$13,600

Low-income households, like those in the 1st decline, are projected to experience reductions in Medicaid and SNAP due to OBBBA. Estimates for 1st decile households are negative because the loss of Medicaid and SNAP will more than offset the tax reductions these households will receive.

Source: CNYCA analysis of Congressional Budget Office, Distributional Effects of Public Law 119-21, August 11, 2025.

5. Mohamed Obaidy, While the Top 3 Percent of Wage Earners Get Richer, New York City's Low-Wage Workers Risk Greater Poverty, Center for New York City Affairs, February 26, 2025.
6. CNYCA analysis of U.S. Census Bureau, American Community Survey.

Fiscal Policy Outlook: Key Findings

OBBBA business tax changes will lead to a loss of an estimated $2.9 billion in State revenue and $520 million in City revenue if the State does not move to decouple its business tax code from federal law.

The Trump administration has attempted to cut many federal funding sources that City agencies rely on. Many of these threats are currently being challenged in court or have not been finalized. However, a number of cuts are currently impacting City programs and projects:

- Head Start programs face a $70 million annual loss over the next five years.
- New York City Health + Hospitals (H+H) projects a $1.5 billion reduction in revenue for City Fiscal Years 2026-2029 from OBBBA cuts to Medicaid.
- The Trump administration is currently withholding $12 billion in federal grants for the Gateway Project to construct a passenger rail tunnel between New York and New Jersey, effectively cancelling the project.
- The Trump administration is currently withholding $3.4 billion for Phase 2 of the Second Avenue Subway.

New York State will likely be able to maintain budget balance in State Fiscal Year (SFY) 2027. The picture is less bright for future years, which the State should start preparing for now.

- The current (SFY 2026) revenue forecast is strong, with higher than anticipated tax revenues, related to better than expected economic growth in 2025. Indeed, current forecasts are likely underestimates, because they do not fully incorporate strong performance of the local financial sector in 2025.
- The State has large budget gaps in later "outyears," related to the growing impact of OBBBA. The Division of the Budget (DOB) estimates the impact of OBBBA in SFY 2026 is $952 million. It then grows rapidly to $3.6 billion in SFY 2027 and $4.4 billion in SFY 2028.[7] Several independent studies estimate the impact of OBBBA benefit changes on the State budget to be even larger.[8]

New York City's budget is barely in balance, but projects growing deficits for City Fiscal Years (CFYs) 2027 to 2029.

- In January 2026, the incoming mayoral administration will need to present a financial plan with CFY 2027 in balance. The City currently forecasts a budget gap of $4.7 billion for CFY 2027 (and a larger budget gap in CFY 2028).
- City revenue forecasts reflect strong PIT revenue, related to better than expected economic growth in 2025. These forecasts underestimate revenue strength, because they do not yet incorporate the strong performance of the financial sector in 2025.
- City revenue forecasts reflect weak business tax revenue.

Funds available outside of current State and City revenue sources are limited.

- New York State's $14.6 billion in principal reserves are not sufficient to permanently fill the OBBBA-related federal funding gap. However, the State could use its reserves to address gaps

7. New York State Division of the Budget, FY2026 NYS Enacted Budget Financial Plan Mid-Year Update, October 2025.
8. Jillian K. Bronner, An Analysis of the One Big Beautiful Bill Act (OBBBA)'s Impact on Healthcare for New York, Rockefeller Institute of Government, July 10, 2025; Michael Kinnucan, The State is Understating Threats to NYS Medicaid After OBBBA, Fiscal Policy Institute, July 25, 2025.

in SFY 2027 and SFY 2028. The State should also seriously consider drawing on these reserves in the next fiscal year for short-term, one-time fiscal needs that have economy-wide benefits, as it did last year with the unemployment insurance (UI) system.

- Policymakers must be cautious concerning adding debt burden to the City. Future debt issuance should be conservative and targeted and can only be used for capital projects. Per the Office of the New York City Comptroller, the City has $29.9 billion in remaining debt issuance capacity (out of a total of $140.6 billion total debt capacity).[9]

Recommendations

Incoming Mayor Mamdani's campaign slogan "afford to live and afford to dream" reflects his bold policy agenda to confront that precarity. Much of his agenda includes more public provisioning of basic necessities to offset costs on individual households. That will require significant public investment at a time when federal actions have multiple downstream effects on the State and City budgets that threaten the existing public infrastructure and institutions that all New Yorkers rely on and that will disproportionately impact low-income and immigrant households.

This section includes two types of recommendations. First, we recommend ways the City and State can address critical funding needs this year and beyond. Second, we recommend policy tools to facilitate inclusive economic growth that directly mitigates rising poverty and inequality.

A. How policymakers can address funding needs in FY 2027 and beyond.

1. Take steps to retain every federal dollar immediately.
   - The State should decouple OBBBA business tax changes from New York tax law.
   - The State and City should invest in agency staffing; outreach; and innovation in applications, programs, and systems (like ACCESS HRA) to minimize the likelihood that people will lose SNAP and Medicaid due to new work eligibility and reporting requirements.

2. The State should use its funding reserves in FY 2027 for short-term, one-time investments that can counteract the negative impact of federal actions on State and City programs and services.

3. The State and City should pass progressive City tax reforms in FY 2027 to address long-term needs for additional City revenue. Given increased inequality, exacerbated by OBBBA, priority should be given to revenue raisers that facilitate wealth redistribution. Some options include:
   - The State should add one or more brackets with higher rates to the City's personal income tax.
   - The City should rescind the Madison Square Garden property tax exemption.
   - The City should negotiate a payment in lieu of tax (PILOT) from private universities and hospitals that are currently exempt from property taxes under State law.
   - The City should implement comprehensive property tax reform, such as those recommended

9. Office of the New York City Comptroller, Annual Report on Capital Debt and Obligations, Fiscal Year 2026. December 1, 2025.

by the NYC Advisory Commission on Property Tax Reform.
- The State and City should actively explore new revenue raising proposals together.

B. How policymakers can facilitate inclusive economic growth.

1. The State and City should maintain services and programs, with a commitment to residents facing extreme hardship. This includes:
    - Preserving and maintaining existing universal core services and programs that benefit all New Yorkers.
    - Prioritizing benefits programs and administration.
    - Safeguarding immigrants.
2. Protect workers.
3. Establish and enforce higher labor standards for workers in low-wage occupations.
4. Prioritize neighborhood small business and job opportunities.
5. Direct fiscal stimulus to public works that can create high-quality jobs.