U.S. QUARTERLY STATE FORECAST

TD Economics

December 18, 2015

New England

- New England's economy is expected to underperform relative to the nation over the forecast horizon. The regional economy will advance by 1.8% in 2016, with strength in Mass. providing some offset to modest growth profiles elsewhere in the region.

Middle Atlantic

- The Middle Atlantic will continue to underperform relative to the nation over the next two years, with growth averaging just under 2%. N.Y.'s economy will lead the way, with growth just below the national pace. Growth will remain lukewarm in N.J., while Pa.'s economy will slow slightly alongside decreased energy sector investment.

Upper South Atlantic

- After years of underperformance, the Upper South Atlantic economy will begin to outperform the nation, with the near-3% growth in 2016 nearly half-point above that of the U.S. With federal spending cuts in the rear-view mirror, the D.C., Md. and Va. economies should gather steam, while N.C. will remain an engine of growth despite the higher U.S. dollar.

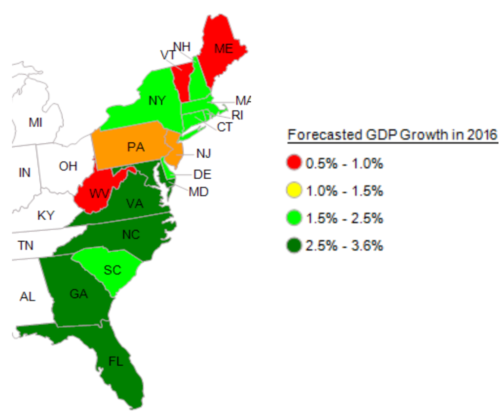
Lower South Atlantic

- The Lower South Atlantic will continue to outpace the nation over the forecast horizon with growth averaging near mid-3% during the coming two years. Fla. will lead on strong gains in housing and tourism. But, domestic factors will also help out in S.C., which should keep pace with the nation despite its very-high export dependence.

U.S. Macro Themes

- The U.S. economy had a bumpy 2015. Growth started out moribund, rebounded sharply in the second quarter, before settling to around 2.0% over the second half of the year.
- As the drag from investment in the oil sector fades, the benefit to household and business spending will dominate, with growth improving during 2016, with the economy expected to record growth of 2.4% in 2016 and 2.3% in 2017.
- The details are better than the headlines. The most important aspect of the U.S. economy – domestic demand – will remain a frontrunner at a pace of just over 3% in 2016.
- The Fed's decision to raise interest rates by 25 basis points was a vote of confidence in the economy. Still, future rate increases will be gradual, with rates rising to just 1.25% and 1.75% by the end of 2016 and 2017, respectively.

2016 REAL GROSS DOMESTIC PRODUCT FORECAST



Source: TD Economics. Forecast as of December 2015.

TD State Forecasts															
	Real GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Housing Starts (thousands)			Home Prices (% Chg.)		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
National	**2.5**	**2.4**	**2.3**	**2.1**	**1.7**	**1.4**	**5.3**	**4.9**	**4.8**	**1,108**	**1,291**	**1,465**	**4.9**	**4.4**	**4.5**
New England	1.7	1.8	1.6	1.6	1.4	1.2	4.9	4.4	4.2	29	34	35	3.1	3.6	3.1
Middle Atlantic	1.8	1.9	1.7	1.3	1.1	0.9	5.5	4.8	4.6	105	98	107	3.3	4.7	3.6
Upper South Atlantic	2.2	2.8	2.9	1.5	1.3	1.5	5.4	5.1	4.8	107	115	129	2.4	4.9	5.1
Lower South Atlantic	3.3	3.2	3.0	2.9	1.9	2.0	5.7	5.0	4.8	169	191	218	6.9	7.5	5.9

Sources: BEA, BLS, Census Bureau, CoreLogic, TD Economics. Forecasts by TD Economics as of December 2015. Note that all are forecast values.

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NEW ENGLAND (CT, MA, ME, NH, RI, VT)

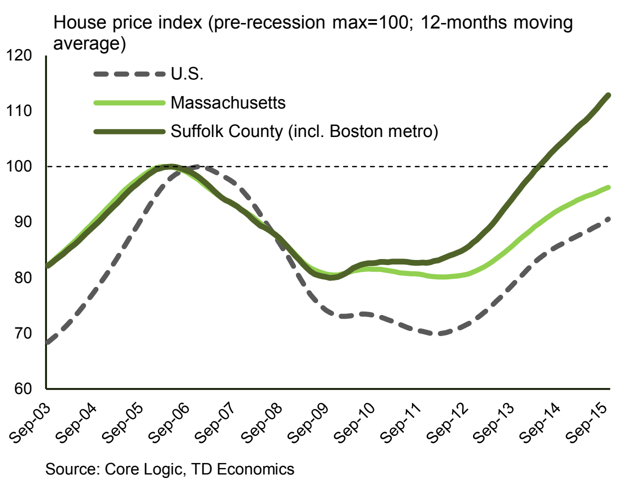
Massachusetts: Solid growth beyond weak Q1

The Bay State remains one of the best performing economies in the Northeast. Job growth has been outpacing the national metric since July and will average 2.0% for the year as a whole – a pace not seen since the late-1990s tech-boom. Aside from the weather-induced slowdown in the first quarter of 2015, GDP growth has also been solid and will advance by 2.2% this year – nearly on par with its performance in 2014. The state economy is expected to sustain its above potential growth rate over the forecast horizon, thanks to Mass.'s diversified service industries, brisk growth within the high-tech sector and smaller share of externally-exposed industries, such as manufacturing and mining, which is an advantage in the current climate.

Much of the acceleration in employment growth this year has been underpinned by strong hiring in high-value added industries, such as professional & technical, finance & insurance and health care services. In the first three quarters of 2015, Mass. startups attracted $4.7 billion of venture capital investment – 70% more than a year ago. Much of this funding has gone into the quickly expanding tech and pharma sectors, with gains in these well-paying industries leading to strong wage gains. Average hourly earnings are up 3.3% y/y statewide, with wages in Boston nearly 5% higher than last year – well above the 2.3% national gain.

The state's robust economic expansion has been spurring demand for housing, leading to substantial decline in inventory. The number of single-family homes on the market equates to 4.6 months of sales at the current pace statewide and just 3.1 months in Greater Boston – both well below the 6 months considered as a balanced market. The inventory is even lower in the multi-family segment, at 2.9 months and 2.2 months in Mass. and Boston, respectively. Demand from renters is also exceptionally strong, with a rental vacancy rate of 2.7% in 2015Q3 – the second lowest in the nation. Tight market conditions and increased number of luxury condo units has pushed prices and rents higher (see chart). In October, condo prices in Greater Boston registered a 15.5% y/y increase, with median selling prices for condos eclipsing those for single-family homes for the fourth time ever. Supply-demand imbalances should begin to ease next year. Construction has been rising, with multi-family housing starts already recovering to their pre-recession level. In light of the lengthy-completion times of multifamily projects most units are expected to hit the market over the next two years, helping to moderate price growth. Still, with construction skewed toward high-end condos, housing affordability is beginning to represent a risk for Boston's real estate market and may impinge on the future economic growth of the city and the state more broadly.

HOUSE PRICES TAKE OFF IN BOSTON

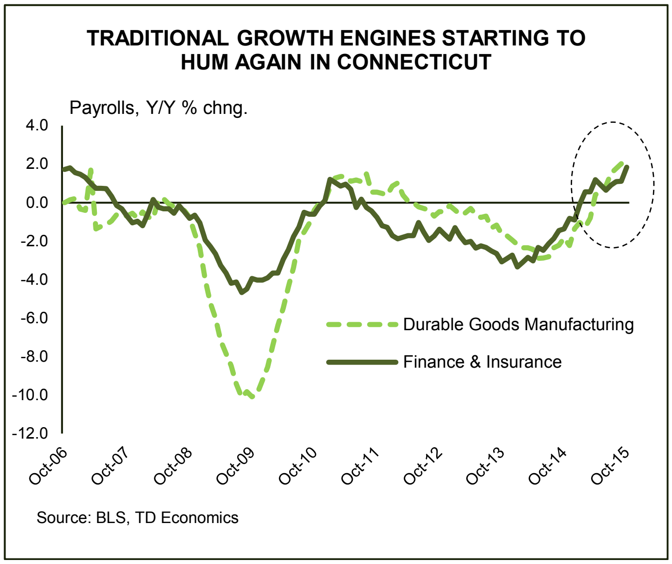


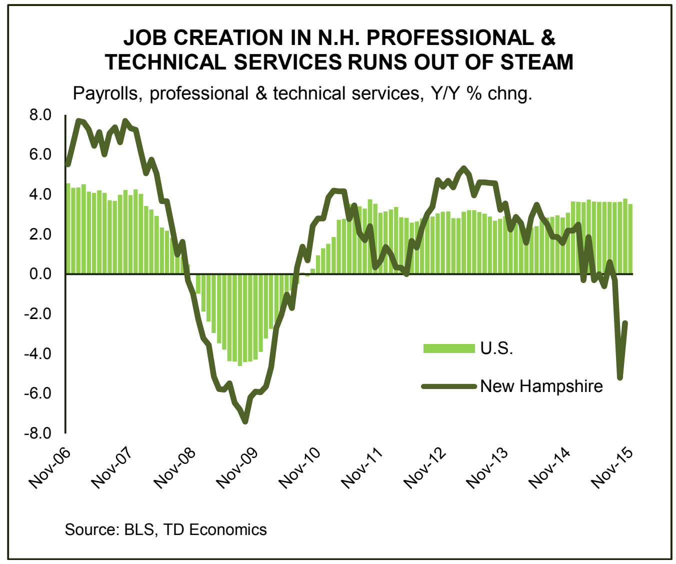
Source: Core Logic, TD Economics

Connecticut: Growth engines starting to hum again

Recovery has been anemic in Connecticut, and both employment and GDP are still below their pre-recession levels. Looking ahead, economic momentum will remain relatively sluggish due to the lingering weakness in state's core industries, strained public finances and weak demographic fundamentals. Still, modest improvement should set in. Last year's GDP growth has been revised up from 0.6% to 1%, and Conn. economy is forecast to expand by 1.6% this year and next, and by 1.4% in 2017.

The labor market should also fare better. State payrolls are adding jobs at the fastest clip since 1999, with job creation on track to average 1.6% this year. It is particularly encouraging that improved hiring has been underpinned by industries which until recently have been the most underperforming – durable manufacturing and finance & insurance services (see chart). The state's finance & insurance sector has been shedding jobs ever since the financial crisis broke out, but employment should eke out a meagre but significant expansion of about 1% this year. Durable manufacturing payrolls have also been a weak spot, weighed by cuts to defense spending both at the federal level and internationally. However, this year's federal government budget deal has reduced fiscal uncertainty and industry employment is expected to rise by 0.6% this year – its first gain since 2011.





Set against an improving labor market backdrop, the housing market has started showing signs of life again. Home prices have ceased declining in July and sales of single-family homes rose by 5.7% y/y in October, helping to drawdown some foreclosed inventory. Still, given the protracted nature of Conn.'s economic recovery, weak income and population growth, and relatively high delinquency rates, house price appreciation will remain lukewarm, averaging 1%-range over the next two years.

The overall economic momentum will also remain modest. Despite the recent positive dynamic, neither finance & insurance nor manufacturing are expected to accelerate near their pre-recession pace. Moreover, the outlook is not without risks. A strong dollar could halt the nascent expansion in export-oriented sectors. Meanwhile, if approved, mergers among health insurance companies which have substantial presence in the state, such as Aetna and Cigna, could pose risk to payrolls. Downsizing and relocation are also taking place amongst some of the state's pharmaceutical and medical companies. Bristol-Myers Squibb is expected to close its facility in Wallingford by 2018, and some of the positions will be moved to Mass. and N.J. Yet another risk for local pharma jobs stems from the recently announced mega-merger between Pfizer and Allergan. The restructuring wave appears to have manifested in a sharp slowdown in professional & technical services, with job growth easing from 2.6% y/y last year to -0.8% y/y this October, with the recent announcements pointing to more near-term weakness.

New Hampshire: Moderate growth ahead

A large weather-induced economic contraction of 9% (annualized) in the Q1 of 2015 will weigh on New Hampshire's headline growth this year. As such, after expanding by 2.3% in 2014, growth will average just 0.7% this year. As transitory impact dissipates, expansion will quicken to 1.6% in 2016, however, a slowdown in professional & business services sector will keep growth relatively modest.

Professional & business payrolls expanded by 4.4% in 2014, generating nearly half of all economic growth in the state. This year, however, industry payrolls are expected to contract by 0.6% - the worst performance since 2003 (see chart). Leisure & hospitality is another sector which will feel the pressure. Sharp appreciation of the U.S. vis-à-vis the Canadian dollar, already at its lowest level in more than a decade, will weigh on spending by Canadian tourists. Furthermore, an unseasonably warm winter could impact ski season bookings. The leisure & hospitality industry contributes relatively little to the headline growth. However, it is a significant job creator given that tourists often come to N.H. to shop due to its lack of sales tax. Weaker momentum in professional services and hospitality sectors will shave 0.2 and 0.3 percentage points off job growth this year and next, with payrolls advancing by 1% and 0.9% in 2015 and 2016.

Fortunately, the weakness in these industries will be partially offset by strength in durable manufacturing, transportation, financial services, retail trade and healthcare. Defense manufacturers, such as BAE Systems, will benefit from the federal budget deal, which increases defense spending over previous caps. BAE Systems has also recently won a multi-year contract to develop and manufacture digital electronic warfare systems for U.S. Airforce fleet of F-15 aircraft valued at $1 billion. Last but not least, N.H.'s labor and housing markets will continue to get a lift from proximity to the strong economy and red-hot housing market in Boston, with home price growth in the state's portion of the Boston suburbs showing particular strength.

MIDDLE ATLANTIC (NJ, NY, PA)

New York: Maintaining the lead

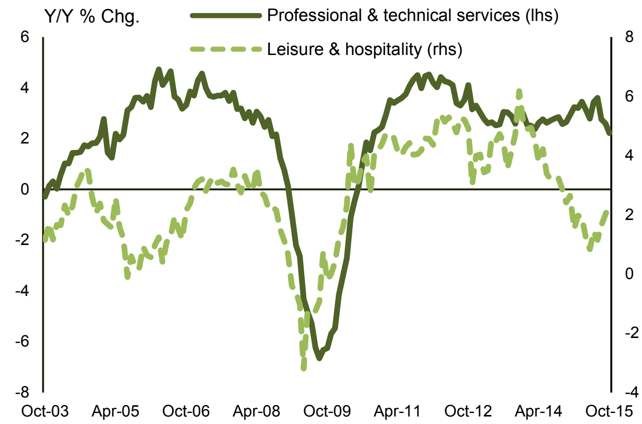
The Empire State economy continues to fare well, with the slowdown in externally-oriented sectors, such as tourism and manufacturing being mitigated by strength in domestically-focused industries – construction and the related real estate rental & leasing services, TAMI sector (technology, advertising, media, and information), healthcare, and professional services. With higher interest rates waiting in the wings, N.Y.'s outsized financial sector should also fare better. As a result, N.Y. is slated to remain an outperformer in the Middle Atlantic region over the forecast horizon, with GDP advancing by 2.2% next year and 2.0% in 2017.

Just like in the rest of the country, dollar's appreciation has weighed on N.Y.'s factory activity, pushing the Empire State manufacturing index into contractionary territory. The slowdown in manufacturing is not likely to abate any time soon, as the dollar is expected to remain elevated over the forecast horizon. That being said, manufacturing production makes up a relatively small share of N.Y.'s economy – something that will help to lessen the drag on growth.

The stronger greenback will also take a bite out of tourism-related spending. Job creation in the leisure & hospitality industry has slowed to about half of its 2014 pace, and the retail sector is also likely to feel the pinch. Travelers from Canada and Brazil, which represent the second and third largest source of foreign visitors to the Big Apple, saw their respective currencies lose 18% and 45% of their value relative to a year ago. Fortunately, NYC's other two major sources of international visitors – the U.K. and China – has been relatively unscarred by the dollar's appreciation. The number of travelers from China has grown briskly in recent years. Relative stability of the yuan, alongside the introduction of the new 10-year U.S. visas for Chinese citizens, will help to ensure that visitors from China remain an important source of future growth, but will only partially offset weaker demand in other markets.

The softness in N.Y.'s externally-oriented sectors will be mitigated by strength elsewhere (see chart). The healthcare sector is in the midst of the strongest expansion on the record, generating a third of all new jobs this year. Professional services, TAMI, and construction & leasing will be other areas of strength. Fueled by strong growth in office-using occupations and significant interest from institutional investors looking for higher yields, activity is booming in commercial real estate. Strong demand has pushed prices on investment grade assets above their pre-recession levels, squeezing cap rates. Higher interest rates will help to take some heat off the market next year. Supply will also begin to rise as many large-scale projects, such as the Hudson Yards, One Vanderbilt, 3 World Trade Center and 425 Park will begin to wrap up. Ditto for the multi-family homebuilding. Multi-family starts have nearly doubled this year, however, this pace of construction is not expected to be sustained, and momentum should shift to the lagging single-family sector. New York's foreclosure inventory remains well above the national; however, the delinquency rate has begun to fall at a faster pace this year. A reduced backlog of foreclosed properties and stronger demand helped push home price growth to 9% y/y in September.

ROBUST HIRING IN P&T SERVICES AMID SLOWDOWN IN N.Y.'S HOSPITALITY SECTOR

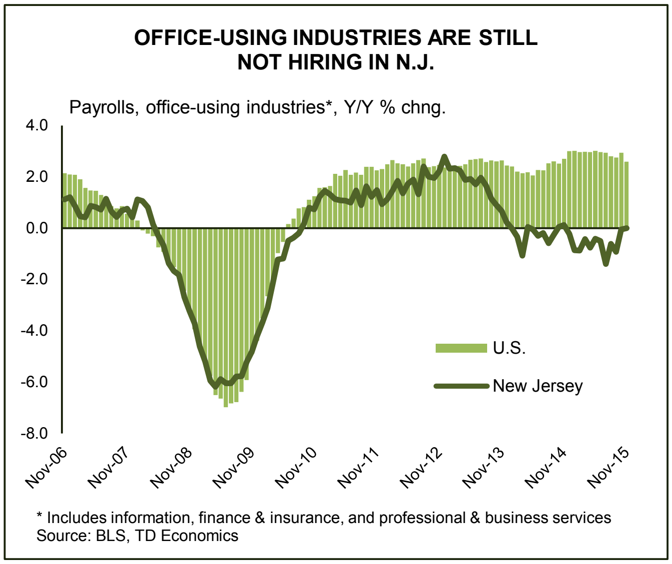


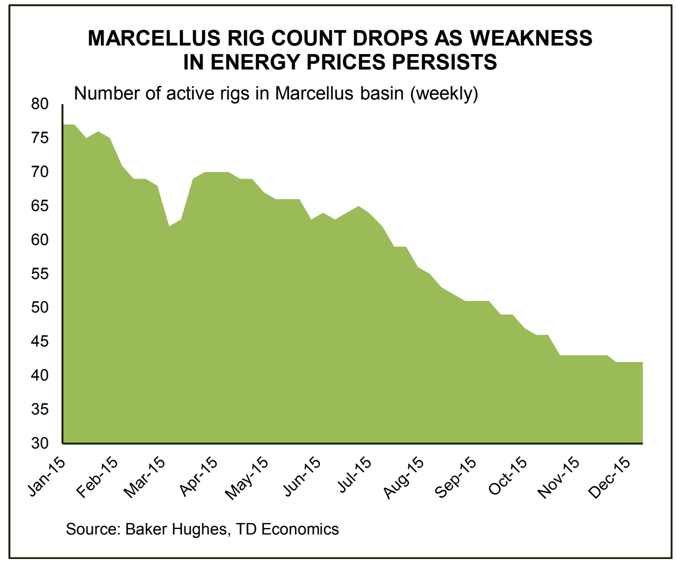
Source: BEA, BLS, TD Economics

New Jersey: Clouds clearing, but the sun not out yet

The pace of expansion continues to be modest in the Garden State. Headwinds persist from weakness among office-using occupations (see chart), in part due to relocation and downsizing within the core high-value-added industries of finance and pharmaceutical. The outlook also remains challenged by a weak housing market and strained public finances. Still, despite numerous challenges, modest improvement is under way and the economy is expected to fare better with growth accelerating from the upwardly-revised 1.3% in 2014 to 1.7% this year and 1.5% in 2016.

Underpinned by stronger hiring in construction, manufacturing, healthcare and transportation, employment growth will also accelerate to 1.1% this year and 1.4% in 2016, compared to the 0.7% pace posted in 2014. Transportation & trade industry, in particular, will remain an important source of new jobs for the state thanks to low gasoline prices and





rising demand for imported goods on the back of a stronger U.S. dollar. N.J. is especially well-positioned to benefit from these trends because of its considerable distribution & transportation clusters, advantageous location close to 40% of the U.S. population and access to seaports.

Signs of improvement are also evident in the housing market. While New Jersey's foreclosure inventory remains the largest in the nation, fundamentals are moving in the right direction. The share of delinquent mortgages is down by 2 percentage points relative to a year earlier, marking the fastest pace of improvement since the recovery. Alongside a clearing in the backlog of houses, the demand side is also picking up with the year-to-date sales of single family homes up 14% relative to a year ago. Still, for now supply remains plentiful. Inventory of houses for sale, measured in months of supply, was at 8.1 months as of October, lower than 10.4 a year ago, but well above the 6-6.5 months threshold that is viewed as a balanced market. As result, aside from Hudson County, which benefits from NYC's pull, home price growth remains lukewarm.

It is not just N.J.'s housing market that benefits from proximity to the stronger-performing NYC. Many N.J. residents also work in the Big Apple. This is apparent when looking at two different metrics of job growth for the state. Based on the survey of N.J.'s establishments, employment is growing at a 1.1% pace and payrolls remain 1.5% below their pre-recession level. However, the household survey paints a brighter picture, with the economy creating jobs at a faster 1.3% clip and having already recovered all the jobs lost during the recession. The difference between the two indicators suggests that a good portion of N.J. residents are not employed within the state, but are working across state lines. This is helping to keep N.J.'s personal income growth in line with the national.

Pennsylvania: Mining and manufacturing to slow

Pa.'s economy will continue to chug along at a relatively modest pace as the state's weak demographic fundamentals and strained public finances limit economy's running pace. Low energy prices and a strong dollar will pose additional headwinds to growth, leading to underperformance in natural gas (see chart) and manufacturing industries. Both industries account for a larger share of the state economy than in neighboring New Jersey and New York, making Pennsylvania more exposed to global jitters. As a result, after expanding by 1.5% in 2014 and 1.7% this year, GDP growth is expected to average 1.4% during 2016-17 period.

Despite the slowdown in the externally exposed sectors, the outlook is robust for service sector industries. "Eds and meds" remain the backbone of the state economy, single-handedly generating a quarter of all new jobs this year. Additionally, job creation has quickened in several key well-paying and high-value added industries, such as finance & insurance, professional & technical services and real estate rental & leasing. Pa.'s income growth has been lagging relative to the nation; however, improved hiring within higher paying occupations should nudge income growth higher. Consistent job gains and rising incomes will in turn support demand for housing. In fact, this is already manifesting in the data, with year-to-date home sales up 13% relative to their year ago level. That being said, home price appreciation and new residential construction will continue to underperform relative to the nation over the forecast horizon due to slow population growth and ample inventory of houses for sale.

UPPER SOUTH ATLANTIC (DC, DE, MD, NC, VA, WV)

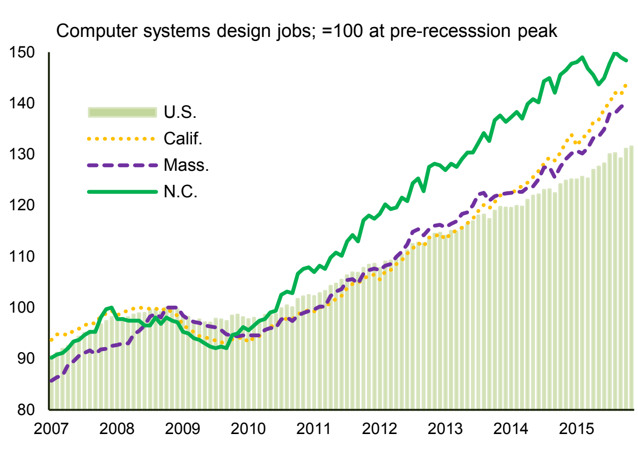
North Carolina: About to take off

The North Carolina economy is advancing at a good pace. Growth is above the national, although progress has been more volatile and gains uneven across the state. Charlotte, Asheville, Raleigh, and Triad economies remain magnets for jobs and investment. Improving jobless rates in these regions to the low-4% territory early this year attracted an influx of labor force entrants, briefly pushing joblessness higher. But, strong payroll growth has set the unemployment rate on a downward trend once again, and tighter labor market conditions are manifesting in wage pressures. Flat wages in previous years have given way to gains, with wages rising by 3.3% y/y statewide and by 5% in markets where high-skill industries are hiring en masse.

Finance and insurance is one of the sectors on the leader board. Payrolls in the industry are rising at the fastest pace since 2006, with nearly 7,000 jobs (+4.4% y/y) added in the last year. Many of these were in the Charlotte area, reflecting a turn in the credit cycle. Demand for credit and insurance products is rising, and diminished consolidation amongst regional banks has alleviated downward pressure on payrolls. Importantly, the job gains are more than enough to offset reductions in the distressed mortgage servicing divisions at the city's large banks related to a healing housing market.

Good news is also emanating from the state's manufacturing sector despite a highflying U.S. dollar. Manufacturing output and payrolls are advancing at a robust pace, with the latter rising by 3% – the best performance since the early-1990s. Durable manufacturing is leading these gains, with fabricated metals, machinery and transport equipment recording healthy gains. Production and exports of transport equipment in N.C. should get a lift soon, with the FAA this month awarding Honda the final clearance to begin production of its four-to-six-passenger jet. The company expects to build nearly 100 of the $4.5 million aircraft each year at its Greensboro facility, helping support the Triad economy and advancing manufacturing further along the tech frontier.

TAR HEEL ATTRACTING TECHIES



Source: Bureau of Labor Statistics, TD Economics

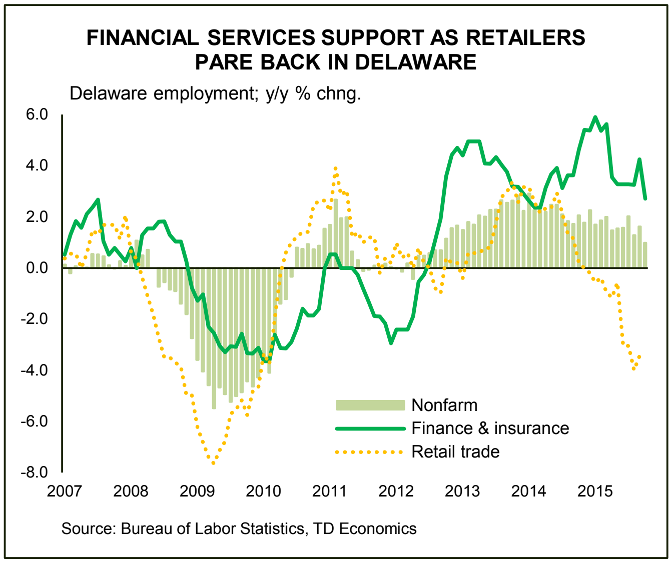
High-tech services are also helping out. While smaller than in California or Massachusetts, N.C.'s computer systems design sector has grown much faster in recent years, and is now nearly 50% larger than prior to the recession (see chart). Other IT segments in the state have also been adding jobs, helped by surging VC investment in start-ups, particularly in the Triangle. N.C. has also fared well in attracting established tech-giants to set up massive data centers, with substantial positive spillovers for local economies. Some concerns regarding changes to renewable-energy policies were expressed this year by the tech companies. But, paring back green-energy incentives should not derail the tech industry's growth in N.C., with strong academic institutions and a highly skilled workforce key to attracting investment.

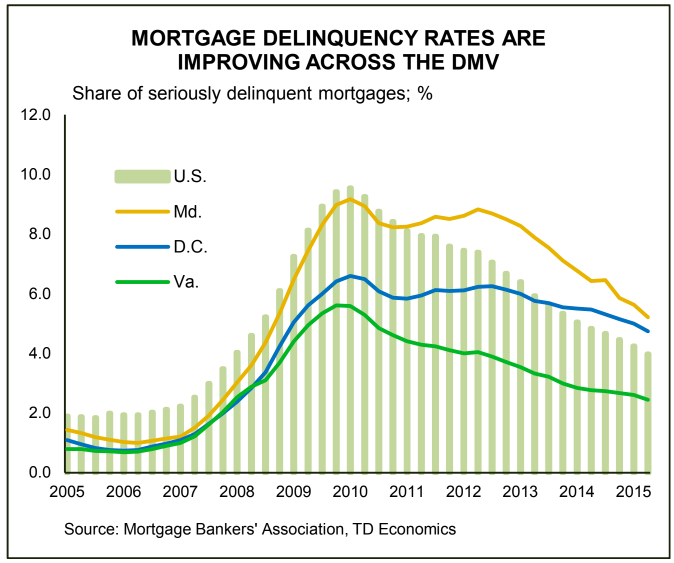
Despite risks stemming from a highflying dollar, N.C. has a lot going for it given its industrial diversity and development of high-tech industry, with growth likely to come in at close to 3% this year. Coupled with strong domestic growth prospects, the economy should deliver an even better performance over the medium term, with growth of 3.2% and 3.5% expected in 2016 and 2017, respectively.

Delaware: Revolving around credit

Delaware continues to face headwinds, evident by an unemployment rate that rose back above the national average at 5.1% after having fallen to 4.5% earlier this year. Nonfarm payrolls have weakened considerably and are now recording sub 1% growth. Some of the weakness is related to retail trade, which lost about 2,000 jobs, or 4% of the total headcount in recent months. Going forward, however, retailers could get a competitive boost should neighboring Pennsylvania go ahead with a proposed 1.25 percentage point increase to its sales tax – something that could happen as early as January 1, 2016.

Still, much of Delaware's economic prospects hinge on its large financial sector. Revolving credit growth remains strong, and credit card issuers in the state stand to benefit. As such, despite losing some traction since the beginning of the year, financial sector hiring will likely accelerate next year from an already healthy 2%. Indeed, JP Morgan





Chase announced that an additional 1,800 jobs are expected to come online in the First State by 2019.

A key risk to the economy stems from the recently announced Dupont-Dow merger, with the potential for job cuts as a result of redundancies across the two behemoths. Moreover, the housing sector, while recovering, remains weaker than the nation with a substantial seriously delinquent pipeline. Still, robust population growth and the turning credit cycle should help keep Delaware's economic growth reasonably healthy, averaging about 2% over 2016/17.

D.C.-Md.-Va.: Playing catch up

The economies of the national capital region are starting to show signs of improvement as adverse effects stemming from past federal spending cuts dissipate. Jobless rates are down by about half of a percentage point since last year in Va. and Md., and twice that in D.C. Previously subdued job growth is experiencing a modest acceleration. Payrolls are up by nearly 2% in Md., and roughly half that in D.C. and Va. The battered professional and business service sector is making a notable resurgence across the region, leading job growth with headcounts up 2.5% to 3%.

The large and important professional and business services sector remains key to the region's growth prospects, with much depending on the success of fully utilizing its highly skilled workforce. So far, great strides have been made in establishing a hub for cybersecurity. To further support this objective, Virgina's Gov. McAullife has indicated that his proposed biennial budget will encourage further business and investment, by incorporating tax credits for new R&D and angel investments. Piggybacking on these initiatives, the MACH37 Cybersecurity Accelerator in Northern Va. opened its doors to private funding at mid-year, resulting in an inflow of dollars from the likes of General Dynamics Mission Systems recently. Maryland based Tenable Network Security also raised $250M of investment in November – the largest ever investment received by a cybersecurity firm.

Improving job prospects are benefitting the housing market. After recording flat growth earlier this year, house price gains are starting to accelerate, albeit to levels barely exceeding inflation. Still, activity is helping payrolls in real estate and leasing, which have risen by 8% in Md. from the year prior. Improving activity is also eating into the seriously delinquent inventories (see chart), with more improvement likely over the medium-term on labor market strength.

Previously implemented sequestration-related cuts will continue to manifest. Most recently, Newport News Shipbuilding announced 738 lay-offs to take place in early-2016 following the 480 workers who were let go earlier this year from its Virginia Beach facility. Spillovers are expected to trickle down to the local economy. And, despite the recent bi-partisan budget deal that funds the government for another two years, the decision on how to allocate it has not yet been made. We expect Congress to pass the funding bill, but delays and details of the appropriations pose some downside risks to the DMV's economic growth outlook, with the federal government remaining the largest employer. Still, a nascent recovery appears to be underway. Growth this year is tracking about 1% in Va., and 2% to 3% in Md. and D.C. A more robust acceleration is in the cards should the appropriations bill preserve or expand funding for the numerous agencies and defense contractors. As such, growth should pick up in earnest in the coming quarters, with the DMV economies clocking around 3% for both 2016 and 2017.

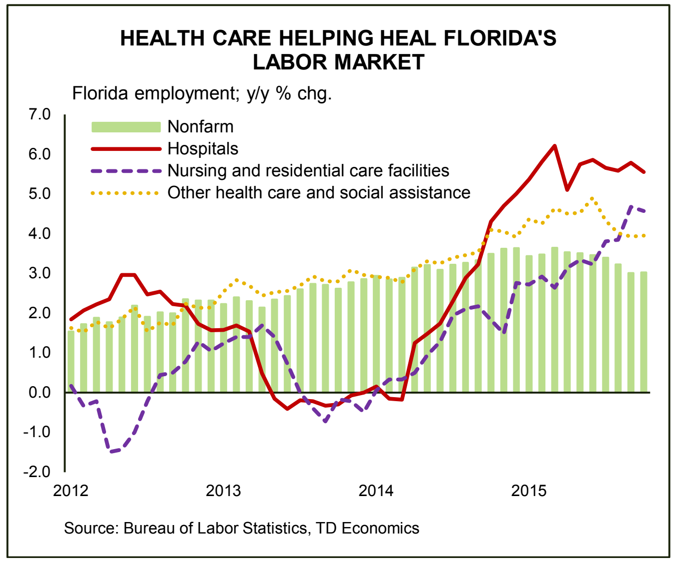
LOWER SOUTH ATLANTIC (FL, GA, SC)

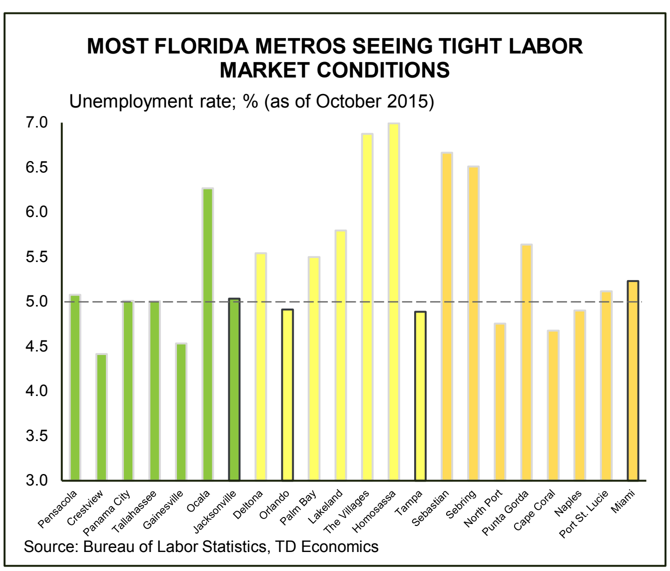
Florida: Health care helping heal economic scars

The Sunshine State recovery continues at a good pace. Economic growth through the first half of the year has averaged double that of the nation. Hiring has slowed somewhat since, but remains strong at 3% y/y. Importantly, it is more than enough to rapidly take up labor force slack, leading to falling unemployment. Jobless rates across major Florida metros are already near national levels (see chart), and strong job gains over the coming months is likely to push the state unemployment rate below 5% early next year.

Leisure, hospitality and retail trade continue to be a key driver of job and economic growth. This is happening despite slowing international tourism activity, as potential visitors from Canada and overseas are facing significantly higher prices on account of an elevated greenback. Growth in international visitor numbers has flat-lined this year for the first time in about a decade. Many of those who do make the trip are likely spending less. Still, domestic tourism activity has been roaring. In the first three quarters of 2015, domestic arrivals were up 6.5% from a year ago according to VisitFlorida estimates, as a healing labor market, rising incomes, and low gasoline prices boost discretionary spending of Americans.

Encouragingly, strong job gains are not limited to the typically lower-paying tourism and retail jobs. Finance & insurance (+2.5% y/y), professional & business services (+4.2% y/y), and health care (+4.5% y/y) have also been strong performers, with wage gains in Florida accelerating to 3.5% y/y recently. The health care sector has seen the largest improvement in payrolls, with the recent pace of hiring triple the 2010-13 average. Much of the extra staff is being added at hospitals (see chart) which have experienced a boost in profits – up nearly 40% last year to $1.15 billion across the 48 South Florida facilities. This is partly related to a higher share of paying customers with enrollment in individual HMO plans rising from 231,000 in 2013 to 656,000 in 2014 and to 1.139 million in the second quarter of 2015. Medicaid HMOs enrollment has also increased by 82% between 2013 and 2014. In addition, workers are being added by nursing homes. Their services remain in strong demand from a growing population of retirees. Nearly half of the 800 residents that move to Florida each day are above 65 years of age.





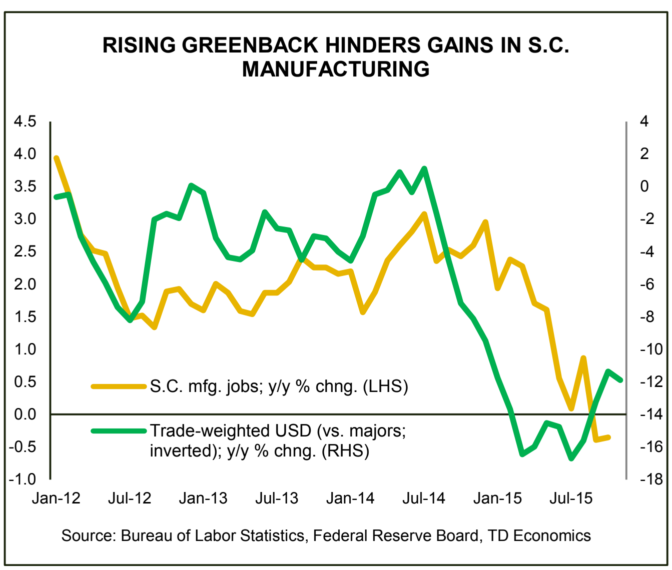
Florida gained some 292,000 people last year. More will be on the way, with the state likely to gain nearly 6 million residents by 2030. This will require substantial investment in infrastructure and housing. Homebuilding has finally risen above 100,000 per year. It will likely have to double to keep up with growth over the long-run. Much progress also needs to be made in the existing home market, where despite strong gains, prices remain 38% below peaks. Still, the state economy appears to be well on its way to healing the scars of the housing bust. Overall, we expect economic growth will average 3.5% this year – well above the national metric. The mid-3% pace is likely to be sustained over the medium-term with the Sunshine State economy coming out of the shadows in earnest.

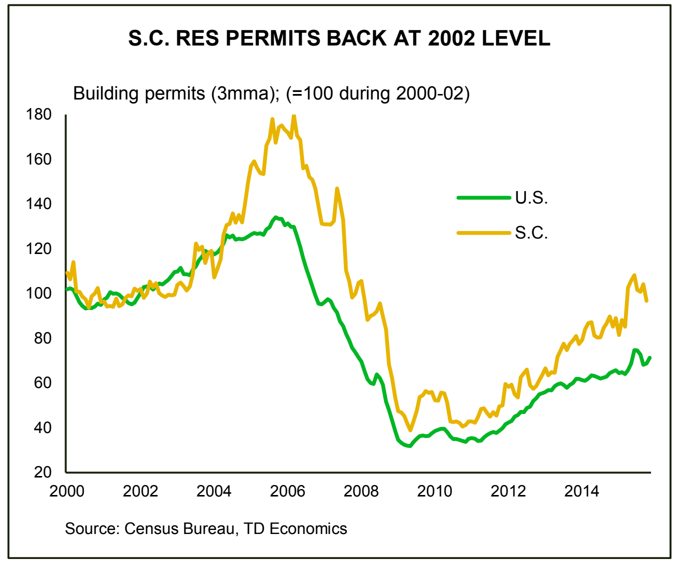
South Carolina: Engine sputters, but will not stall

The Palmetto State economy has awakened from a summer lull and is rapidly expanding. Earlier in the year, a resurgence of workers into the labor force caused the unemployment rate to creep higher. But, it is once again on a decidedly downward trajectory and should fall to about 5.2% by mid-2016 under a rapid acceleration in job creation. Yearly gains in both household employment and nonfarm payrolls have clocked in north of 3% recently – their fastest pace since the 1990s.

This is happening despite a sharp slowdown in externally exposed sectors. South Carolina is the most export-dependent economy on the East Coast with international goods shipments accounting for over 15% of GDP. State businesses dependent on world demand for their wares are facing lukewarm global growth and a surging dollar. The slowdown has been most apparent in the manufacturing sector, which ceased adding to the payroll headcount, as the greenback surged (see chart). This trend has manifested even amongst automotive, aerospace, and plastics & rubber product producers, who were previously a key hiring segment within the state's fast growing manufacturing sector.

Still, a slowing pace of growth does not mean stagnation in manufacturing activity. Domestic and international demand remains robust for specialized transportation equipment and machinery, evident by the busy outbound terminals at the Port of Charleston. This trend will continue over the medium-term with more than $3.5 billion in new manufacturing investment soon to be deployed in the state. Automotive production will get a boost with BMW expanding its already large presence in the state, while Mercedes-Benz and Volvo are about to break ground on van and auto assembly plants, respectively. Aerospace will also hold its own. Toray is building a carbon-composites plant to supply Boeing's assembly plant – a facility that will be kept busy by an order book that spans eight years. Lastly, the shift from coal to natural gas-fired generation is boosting demand for gas turbines, leading GE to expand its production facility in the state. All told, despite some headwinds, Palmetto State exports should outperform national metrics, helping to keep the state's manufacturing engine humming.





Importantly, previous strength in manufacturing has also helped set into motion a self-sustaining growth cycle, with the industry effectively passing the growth baton to sectors more reliant on domestic demand. Strong job and income growth, falling unemployment, low gas prices, and increasing in-migration are boosting economic activity. This is leading to strong hiring in tourism, retail, and education & health sectors, where the headcount is up between 4% and 6% per year. These factors are also manifesting in the housing market. Despite the flood-related October dip, existing home sales have been revving up. This has taken a bite out of available inventory and pushed price gains to near double-digits. New home construction also dipped in October, but nonetheless has notched above early-2000s levels (see chart), leading to a hiring surge in construction sector.

The bottom line is that the South Carolina economy remains strong despite substantial external headwinds. Manufacturing is slowing, but the sector has provided enough economic momentum for domestic sectors to pick up the slack. Aside for a contraction at the start of 2015 and disruption to activity from flooding in autumn, growth remained robust this year. The economy likely grew by about 2.7% this year – its best gain of the recovery. We expect more of the same for the upcoming two years with growth averaging 2.4% and 2.2% in 2016 and 2017, respectively, as external weakness is more than offset by continued domestic strength.

TD State Forecasts

	Real GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Housing Starts (thousands)			Home Prices (% Chg.)			Population (% Chg.)		
	2015	**2016**	**2017**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
National	**2.5**	**2.4**	**2.3**	**2.1**	**1.7**	**1.4**	**5.3**	**4.9**	**4.8**	**1,108**	**1,291**	**1,465**	**4.9**	**4.4**	**4.5**	**0.8**	**0.8**	**0.8**
New England	**1.7**	**1.8**	**1.6**	**1.6**	**1.4**	**1.2**	**4.9**	**4.4**	**4.2**	**29**	**34**	**35**	**3.1**	**3.6**	**3.1**	**0.3**	**0.3**	**0.3**
Connecticut	1.6	1.6	1.4	1.6	1.3	0.8	5.7	4.7	4.2	4.9	5.9	6.3	0.1	1.7	0.8	0.3	0.3	0.2
Massachusetts	2.2	2.3	2.0	2.0	1.9	1.6	4.7	4.5	4.4	15	17	17	4.1	3.8	3.5	0.5	0.5	0.5
Maine	0.2	0.6	0.8	0.7	0.9	0.6	4.6	4.2	4.1	3.6	4.6	4.9	2.7	3.9	3.7	-0.0	0.0	0.0
New Hampshire	0.7	1.6	1.5	1.0	0.9	1.0	3.7	3.2	3.3	3.2	3.8	4.1	3.8	4.6	4.9	0.3	0.4	0.4
Rhode Island	1.6	1.6	1.3	1.0	0.7	0.7	5.8	4.8	4.5	0.9	1.1	1.2	3.8	5.5	4.1	0.3	0.3	0.3
Vermont	0.4	0.6	0.9	1.2	0.5	0.7	3.7	3.6	3.5	1.9	1.9	1.9	2.2	3.2	2.3	0.1	0.1	0.1
Middle Atlantic	**1.8**	**1.9**	**1.7**	**1.3**	**1.1**	**0.9**	**5.5**	**4.8**	**4.6**	**105**	**98**	**107**	**3.3**	**4.7**	**3.6**	**0.3**	**0.3**	**0.3**
New Jersey	1.7	1.5	1.5	1.1	1.4	1.1	6.0	4.9	4.7	26	30	32	2.1	2.5	2.5	0.3	0.4	0.4
New York	1.9	2.2	2.0	1.6	1.3	1.1	5.4	4.7	4.5	57	41	45	4.8	6.7	4.7	0.4	0.3	0.3
Pennsylvania	1.7	1.4	1.4	0.9	0.6	0.6	5.3	5.0	4.7	23	28	30	1.5	2.4	2.5	0.2	0.1	0.1
Upper South Atlantic	**2.2**	**2.8**	**2.9**	**1.5**	**1.3**	**1.5**	**5.4**	**5.1**	**4.8**	**107**	**115**	**129**	**2.4**	**4.9**	**5.1**	**1.0**	**1.0**	**1.0**
District of Columbia	2.1	2.7	2.0	1.4	0.7	0.5	7.1	6.6	6.5	3.8	4.2	4.3	4.5	6.1	7.4	-1.0	-1.0	-1.1
Delaware	2.3	1.9	2.0	1.4	1.0	1.3	4.8	4.5	4.0	5.3	6.1	6.9	2.4	2.4	3.2	0.9	0.8	0.8
Maryland	2.2	2.7	2.7	1.7	1.6	1.4	5.2	5.0	4.4	15	15	17	0.7	5.9	5.6	1.0	0.9	0.9
North Carolina	3.3	3.2	3.5	2.5	1.5	1.6	5.6	5.6	5.5	51	55	62	4.3	5.2	5.0	1.4	1.4	1.4
Virginia	1.3	2.9	2.9	0.9	1.3	1.7	4.6	4.0	3.6	29	31	34	1.3	4.4	5.1	1.1	1.1	1.0
West Virginia	1.0	0.9	1.3	-1.1	0.0	0.5	6.9	6.6	6.3	4.0	4.0	4.1	4.1	3.5	2.9	-0.2	-0.2	-0.2
Lower South Atlantic	**3.3**	**3.2**	**3.0**	**2.9**	**1.9**	**2.0**	**5.7**	**5.0**	**4.8**	**169**	**191**	**218**	**6.9**	**7.8**	**6.4**	**1.6**	**1.6**	**1.6**
Florida	3.5	3.5	3.3	3.2	2.0	2.1	5.5	4.8	4.5	95	109	124	7.3	8.0	6.3	2.0	2.0	2.0
Georgia	3.1	3.0	2.8	2.5	1.9	1.9	6.0	5.3	5.1	43	50	57	6.1	7.1	6.9	1.2	1.2	1.2
South Carolina	2.7	2.4	2.2	2.7	1.9	1.5	6.2	5.2	5.0	30	32	37	6.5	8.3	6.0	0.8	0.8	0.8

Source: BEA, BLS, Census Bureau, CoreLogic, TD Economics. Forecasts by TD Economics as of December 2015. Note that all are forecast values.