U.S. QUARTERLY STATE FORECAST

TD Economics

June 22, 2017

New England

- The New England economy will accelerate, but will still trail the nation with growth averaging 1.8% over 2017-18. High-tech oriented N.H. and Mass. will continue to outperform, while weaker demographics will hold back growth for the remaining states (Conn., Me, R.I., Vt.). Strained public finances will further weigh on Conn., keeping growth at only around 1%.

Middle Atlantic

- The rate of expansion will improve but remain modest in the Mid-Atlantic, with growth averaging 1.7% over 2017-18. Pa.'s economy is expected to outperform as mining investment rebounds. Growth should also improve in N.Y. on account of a brighter outlook for the financial sector, and in N.J. with green shoots appearing among its high value-added industries.

Upper South Atlantic

- Growth in the Upper South Atlantic will continue to converge with national trends. North Carolina will benefit from the repeal of HB2. The Maryland/Virginia region will derive gains as a result of its growing IT industry and its position as the nation's federal defense center. Delaware will see growth diversify into higher-value add services apart from tourism.

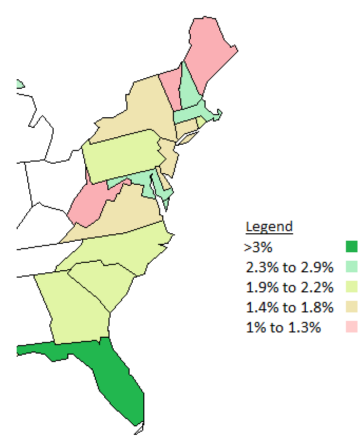
Lower South Atlantic

- The Lower South Atlantic will outperform across a broad range of industries. Florida will see expansion in manufacturing and professional services, while tourism and migration will further support growth in consumer-driven sectors. With an improved outlook for South Carolina's auto exports, the state will see growth surpass the nation by 2018.

U.S. Macro Themes

- The economy has progressed largely as expected with activity on track to grow by 2.2% and moderate slightly to 2.1% in 2018 as the economic cycle matures
- The labor market is looking increasingly tight, with unemployment at a 16-year low. Wage pressures are likely to build in the months ahead, supporting gains in income.
- Recent weakening in inflationary pressures is unlikely to persist due to a preponderance of one-time factors dropping out of the index and building upstream price pressures.
- Another Fed rate hike remains on the docket for this year, coupled with the commencement of a gradual shrinkage of the balance sheet. Together these are expected to drive the 10-year yields towards 3.25% by the end of 2018
- For more details please see our Quarterly Economic Forecast.

STATE REAL GDP GROWTH FORECAST (2017)



Source: TD Economics. Forecast as of June 2017.

TD State Forecasts	Real GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Housing Starts (thousands)			Home Prices (% Chg.)		
	2016*	2017	2018	2016*	2017	2018	2016*	2017	2018	2016*	2017	2018	2016*	2017	2018
National	**1.6**	**2.2**	**2.1**	**1.8**	**1.5**	**1.1**	**4.9**	**4.4**	**4.2**	**1,177**	**1,250**	**1,339**	**5.4**	**6.2**	**4.9**
New England	1.7	1.9	1.6	1.3	1.2	1.0	4.0	4.0	4.0	33	36	40	3.4	4.2	3.3
Middle Atlantic	0.9	1.7	1.6	1.3	1.3	0.9	5.1	4.5	4.5	83	95	97	2.0	4.5	3.9
Upper South Atlantic	1.1	2.0	2.2	1.6	1.2	1.2	4.7	4.4	4.4	117	134	142	2.9	2.7	3.0
Lower South Atlantic	2.9	2.8	2.5	3.1	2.2	1.8	5.1	4.6	4.4	196	227	245	7.0	7.5	5.9

Sources: BEA, BLS, Census Bureau, CoreLogic, TD Economics. Forecasts by TD Economics as of June 2017. * Historical value.

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

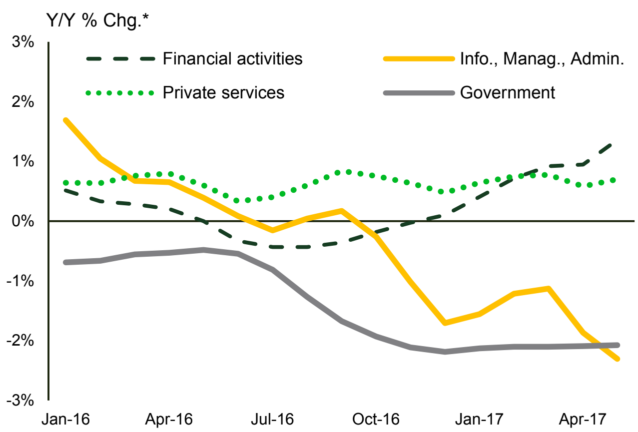
Connecticut: Stuck in the slow lane

The Connecticut economy has grown at a relatively decent 1.5% average pace over the past two years. Yet, this gain has only recouped part of the string of losses recorded in the 2008-14 period, leaving output well below the pre-crisis peak. The state economy is expected to advance further over the forecast horizon, but weak demographics and strained public finances will continue to hold back the pace of expansion to just above 1% per year.

Job market conditions have improved modestly on balance this year, but the performance has been uneven with weakness evident in information, management, and administration payrolls. Still, the softest pocket of the labor market has remained in government (Chart 1) where jobs are contracting at the fastest pace since the recession. State finances pose one of the main risks for the economy. Connecticut faces a $5 billion deficit over the next two fiscal years which will likely prompt additional spending cuts and tax hikes. Current plans also rely heavily on concessions from public sector employees, with 4,200 jobs on the line if the measure is not approved. Moreover, with the new fiscal year fast approaching, the lack of a budget could increase uncertainty and hinder private sector investment and hiring.

The still-tepid employment backdrop and weak demographics have continued to weigh on the housing market. Prices have barely recovered since falling during the recession and remain 20% below the peak. The lack of price growth has left many households with negative equity and weighed on consumption. Rising wage growth should provide some support in the near-term, but a shift toward e-commerce will lessen the impact on retail hiring. However, growing e-commerce activity is lending support to the transportation sector, where payrolls are up a healthy 4% ytd and primed for further growth, with Amazon planning to open a third facility in the state, adding 1,800 new jobs.

CHART 1: JOB GROWTH HAS NOT BEEN BROAD-BASED



Source: BLS, TD Economics. *3-mma.

There are some other bright spots in the state economy. High-value added industries, such as finance and manufacturing, are likely to turn a corner. Rebounding military spending is supporting the state's large defense manufacturing sector with Electric Boat, Sikorsky, and UTC ramping up production of submarines, helicopters and airplane engines. Moreover, the recent deal to supply Saudi Arabia with equipment will be positive for the state economy. The financial sector, which has been one of the better job performers this year, is also poised for growth as rising interest rates should help support the state's large insurance sector. That said, the existing uncertainty and possible changes to the healthcare law pose some downside risks to the insurance industry.

Massachusetts: Economic cycle maturing

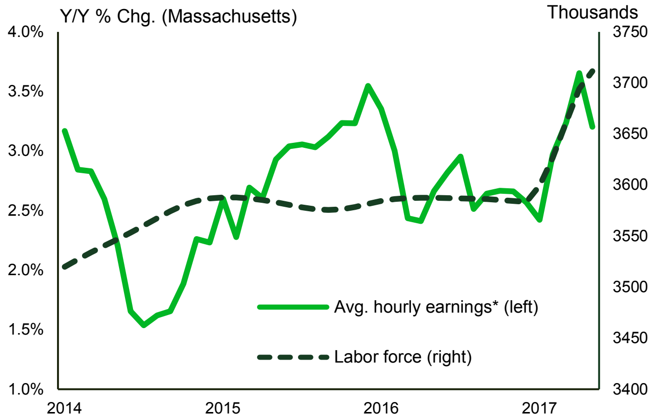
The Massachusetts economy remains one of the best-performing in New England and will continue to outpace most of its Northeast peers given its high-tech tilt and faster population growth. That said, the economic cycle is entering a more mature stage with growth expected decelerate from 2.3% this year to 2.0% in 2018.

Although the unemployment rate has risen recently, it's been for good reason. The tight labor market has encouraged employers to boost compensation, motivating some workers back into the labor force (Chart 2). Job growth should remain strong given the robust demand, a theme corroborated by upbeat employer optimism as per AIM's Business Confidence Index. Having said that, the recent spike in the participation rate is likely transitory, with employment growth expected to gradually decelerate to 1.6% this year and 1.3% in 2018.

Employment gains remain broad-based but high-skilled sectors such as finance & insurance, professional & technical services and healthcare remain at the forefront of job creation. Moreover, the state remains a magnet for venture capital, attracting $1.8 billion last quarter – a rise of 20% from the previous year. This is helping facilitate the expansion of high value-added firms, particularly in biopharma. Hiring prospects for this sector remain upbeat with the vast majority of surveyed firms expecting to increase headcount over the next 12 months, according to a report from MassBioEd.

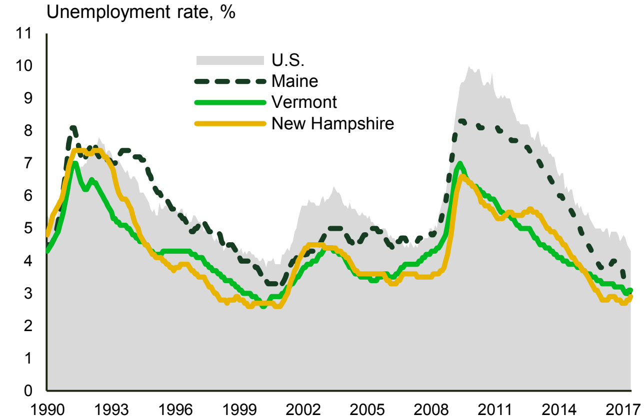
A healthy labor market and rising wage growth will help buoy consumer industries and housing demand further. Along with dwindling inventories, which are down about a

CHART 2: STRONG WAGE GROWTH DRAWING MORE WORKERS INTO THE LABOR MARKET



Source: BLS, TD Economics. *3-mma.

CHART 3: UNEMPLOYMENT RATES HOVERING AROUND 3%



Source: BLS, TD Economics.

third from year-ago, the robust demand has nudged up price growth to 6% y/y. The lack of inventory is constraining sales, but should help spur additional homebuilding. The upgraded state Capital Investment Plan ($2.3 billion) will also lend some support to construction activity and payrolls, with over a third of the funds earmarked toward transportation and infrastructure projects.

While efforts to lower tax burdens at the federal level could yield benefits for the Bay State, other proposed policy changes bear close watching. The decision to exit the Paris Agreement may pose some challenges for the state's growing clean energy sector which employs more than 100,000 workers. More direct risks are related to potential cuts to research funding outlined in the recently presented Trump budget. Lastly, any reduction in H1B visa availability would further accentuate high-skilled labor shortages in the state.

N.H., Me., Vt.: New Hampshire to lead regional growth

Among the northeastern trio, economic growth was once again led by N.H. last year, with the state economy topping the regional ranks at 3%. On the other hand, the economies of Me. and Vt. continue to trail behind, saddled with weaker demographics. While very tight labor markets across the region (Chart 3) are a positive, the mature recovery will keep job growth in these two states near 1% over 2017-18.

A growing shortage of workers will also likely constrain job growth in N.H., but employment in the state should fare better, at 1.7% this year and 1.3% in 2018, helped by better demographics. Real GDP growth should be even stronger, averaging 2.2% over the 2017-18 period, with the outperformance reflecting a larger concentration of high value-added industries. The Granite State is home to a number of high-tech companies such as Oracle and Texas Instruments, while the low tax environment and educated workforce are helping attract firms such as BAO Inc. (tech consulting) which will begin operations this summer. The state is also proving fertile ground for research activity. A $300 million public/private investment toward a biotech research and manufacturing center will not only help revitalize the Manchester Millyard, but should also yield long-term benefits.

Tight labor markets will continue to support housing demand. Rising incomes and improving economic conditions in nearby states will also bolster demand for vacation homes, providing an added tailwind. Tight inventories across all three states should lead to rising homebuilding and support the construction segment. Permitting activity accelerated across the board at the start of the year, but conditions are strongest in N.H. and Me. where wage growth is up 4.5% and 3.4%, respectively, so far this year. Housing activity in Vt., where population shrank last year and wage growth is struggling to pick up, will continue trail behind.

The tourism segment is also expected to lend a helping hand to the regional economy. Rising incomes across nearby states should bolster the number of domestic visitors, while a gradually rebounding Canadian economy should underpin tourism from across the border. Vt. appears well-positioned to capitalize on this trend as recent investment in ski facilities will extend the skiing season and boost revenue. Payrolls in its leisure and hospitality segment are up an impressive 7% this year and are rising at a similar pace in N.H.. Meanwhile, Me. is struggling to find workers for the lower-paid industry with shortages accentuated by changes to the H-2B visa program which restricted the number of returning seasonal workers this year. A recent push by the administration to boost the number of visas could help alleviate some of the pressures. Other risks to the forecast center around NAFTA renegotiation with Vt. and Me. both dependent on trade with Canada.

MIDDLE ATLANTIC (NJ, NY, PA)

New York: Financial sector to support growth pick up

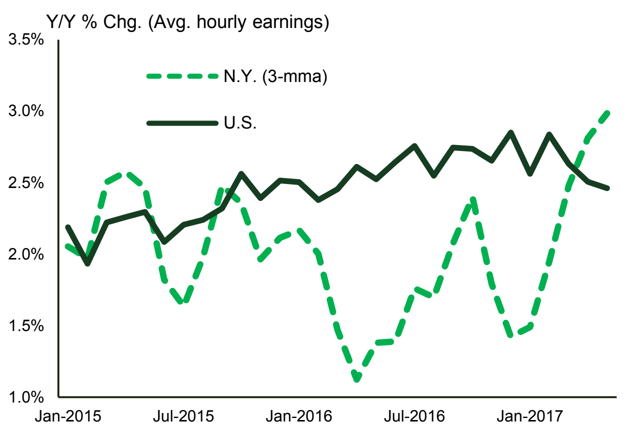
Expansion in New York's economy slowed last year to just half the national rate. On a brighter note, prospects have taken a modest turn for the better so far this year, helping to send the jobless rate down to its lowest level in a decade. Supported by strong conditions in finance and high-skill service industries, real GDP growth is forecast to accelerate to 1.4% this year and 1.7% in 2018.

The large financial sector exerted a drag on growth last year but is expected to fare better going forward, buoyed by the positive impact on net interest margins in a rising interest rate environment and the likelihood of reduced regulation. The possibility of lower taxes at the federal level may provide an added lift, but any benefit would be more than offset should the state and local tax deduction be eliminated – something that poses a significant downside risk to the state. Barring such an outcome, the improved outlook should lead to stronger income growth and positive spillovers in other parts of the economy.

Income growth should also be supported by continued gains across knowledge-based industries. The information sector, which includes media and data processing, has been growing consistently over the past decade and was the biggest contributor to output last year. Recent investments, such as UTC's $300 million (250 jobs) and York Studios' $100 million (400 jobs) in NYC, highlight the notion that N.Y.'s skilled labor force positions the state well to benefit from a shift to the "new economy".

The tightening labor market has begun to pressure wages higher, with average hourly earnings accelerating to 3% (Chart 4). This should help offset the negative impact of higher interest rates on housing affordability. Ongoing strength in housing demand, coupled with falling inventories throughout much of the state, should help to propel home price growth to close to 6% this year after a weak 2016. This should bode well for construction activity, but weaker demographics will continue to keep the pace of homebuilding relatively constrained.

CHART 4: NEW YORK'S WAGE GROWTH IS PICKING UP



Source: BLS, TD Economics.

Ageing demographics will also support demand for healthcare services. But, last year's outsized employment gains in the sector are likely to moderate. While private hospitals are generally faring well, financial challenges have been mounting for public hospitals in the City. NYC Health & Hospitals for instance, recently slashed nearly 500 managerial positions with more cuts likely to come. The healthcare sector is also at risk from the uncertainty surrounding the future of the ACA. But recently-legislated state initiatives to prevent insurers from leaving N.Y.'s ACA exchange market will likely provide some offset to possible upcoming pressures.

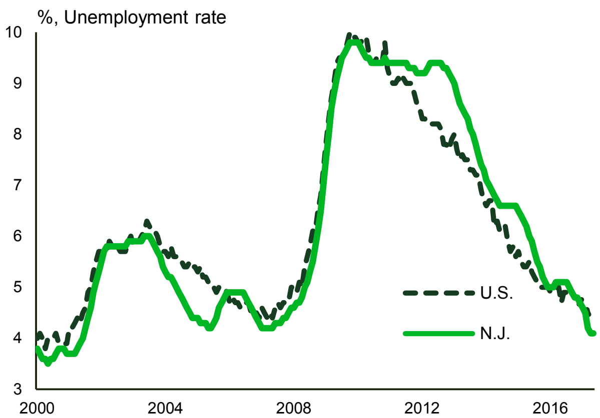
New Jersey: Green shoots in high-skilled services

After reaching a milestone last year with payrolls recovering their recessionary losses, N.J. notched another achievement earlier this year with the jobless rate dropping below that of the U.S. for the first time since 2010 (Chart 5). We expect this relatively healthy performance to continue, with the Garden State economy to add 90 thousand net new jobs this year and next. Ongoing robust payroll growth and rapid gains in high value-added service industries will help drive a pickup in the rate of expansion to 1.8% in 2017, before returning to a more sustainable pace of 1.4% in 2018.

Green shoots are appearing in the state's high-value added industries. Hiring in finance & insurance has been on an upswing since late 2016, with the trend expected to continue supported by a higher interest rate environment and rising rents in NYC. Meanwhile, a number of companies in the bio-pharma space, such as Evotec, Biocartis and HIPRA are moving into N.J., with the local talent pool providing a key advantage. These relocations should lead to an addition of well-paying jobs and suggest that the worst may be behind the state's beleaguered pharmaceutical industry.

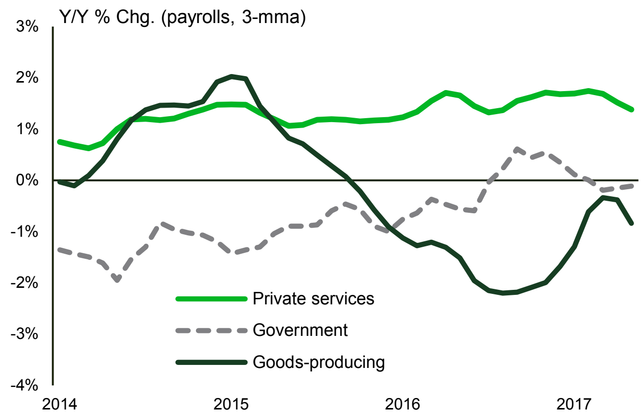
The strengthening labor market is helping support the housing market. Robust sales activity so far this year is drawing down inventory levels. This has helped nudge up price growth to a modest 3% y/y. Nonetheless, price growth should be anchored in the low single-digits over the medium term with the N.J. housing market still saddled with the highest share of foreclosed inventory nationwide. As such, builders have been reluctant to dive into new projects,

CHART 5: NEW JERSEY'S UNEMPLOYMENT RATE HAS FALLEN BELOW U.S. AVERAGE



Source: BLS, TD Economics.

CHART 6: PRIVATE SERVICES PAYROLLS DOING THE HEAVY LIFTING



Source: BLS, TD Economics.

something that does not bode well for construction payrolls.

Still, hiring in the sector should get a much needed boost with a recently-approved $400 million in additional state spending earmarked for transportation projects. Transportation investment is a key priority for the state given a competitive advantage in its expansive transportation network. The logistics sector remains a key growth driver, with the segment expected to continue to fare well in light of expansion plans of big-name distributors such as Amazon that aim to cash in on the growing e-commerce market.

Despite recent improvements, the state still has one of the worst-funded public pension systems and is poised to continue facing large deficits going forward. This year's shortfall is pegged at $527 million and on track to rise further over the coming years, potentially necessitating spending cuts or tax hikes. The weak budgetary position is further accentuated by potential federal policy changes, with the potential elimination of state tax deductibility key among them. Stricter trade and immigration policies also pose downside risks, while increased federal infrastructure spending could benefit N.J. significantly.

Pennsylvania: Mining investment to shore up growth

The Keystone State's economy decelerated sharply to just 1.1% last year, with much of the slowdown related to a decline in energy sector investment. While output of natural gas continued to expand at a double-digit pace, layoffs and reduced drilling spilled over to activity in other sectors. A recent firming in rig counts points to a modest rebound underway in energy sector investment. This should provide some renewed support to local manufacturing with the Philly Fed index already signaling improving conditions for the sector. Private services are also on track to post relatively good growth, but strained public coffers will represent a dampening force. Overall, growth is projected to accelerate to 2.2% this year before moderating to 1.6% in 2018.

The positive reversal in mining investment fortunes from last year will not be lost on the state's growth rate this year, with recent regulatory changes pointing to some further upside for the sector. But, with last year's drilling slowdown likely to weigh on natural gas production in the near term and energy prices expected to remain lackluster, energy's contribution to overall GDP gains will still be somewhat muffled. Energy-related projects, such as ongoing pipeline construction and the Shell ethylene-cracker that broke ground in March, will nonetheless provide a lift to construction payrolls which are already benefitting from rebounding homebuilding activity.

Private services will remain the key hiring engine (Chart 6), with employment expected to increase by 0.9% on average over 2017-18. Ageing demographics, while likely exerting pressure on the state budget, will continue to provide considerable support to the healthcare industry. Meanwhile, a growing e-commerce market and proximity to large population centers will continue to underpin the state's logistics industry. Investments of nearly $1 billion to improve the rebranded PhilaPort will further enhance the state's growing status as a distribution hub.

Despite some progress in addressing unfunded pension liabilities, the state faces a $3 billion deficit this year. At present, it appears that the majority of the shortfall will be addressed through spending cuts, while tax hikes may play a smaller role. But, regardless of the final policy choices, measures to address the shortfall are likely to weigh on growth. Possible cutbacks to staff would impact disposable incomes and weigh on consumption, while a proposal to levy a 6% tax on computer services could weigh on the state's high-tech sector which has gained traction in Philadelphia and Pittsburgh.

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

North Carolina: Repeal of HB2 brightens outlook

After expanding strongly in 2015, growth in North Carolina's economy was nearly cut in half in 2016, while payroll gains have followed suit so far this year. Some of this downshift can be chalked up to corporations cancelling events and shelving plans to expand in the state in opposition of HB2, which was signed into law in March 2016. The impact of this legislation was especially acute in the finance and leisure and hospitality industries, where hiring has slackened sharply (Chart 7). Fortunately, the subsequent partial repeal of HB2 in March of this year should help to reverse some of this recent weakness and vault economic growth in the Tar Heel state back above 2% over the forecast horizon.

The partial repeal of HB2 was enough for the NBA to award Charlotte the 2019 All Star game after the legislation compelled the league to move this year's game to New Orleans. Some businesses have also chosen to resume past expansion plans. Credit Suisse will add 1,200 IT jobs to its Raleigh site over the coming years while insurance company AXA will increase its headcount by 550 jobs in Charlotte. Sizable state subsidies and a favorable corporate tax rate – which dropped from 4% to 3% this year – will continue to attract firms to North Carolina, while the Research Triangle remains a cost-effective alternative to the more expensive technology hubs like Boston and San Francisco.

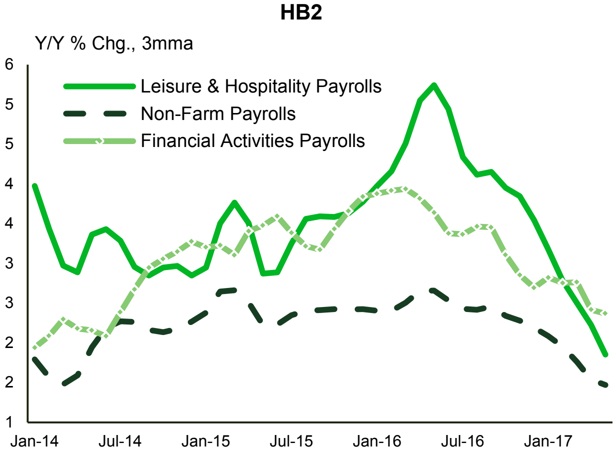
Access to skilled workers from nearby universities facilitates investment and expansion in the Research Triangle. Many firms continue to capitalize on the supply of talent, as evidenced by the very strong 5% y/y payroll gains in both Raleigh and Durham. The region has also attracted some $765 million in venture capital funding, with the investment likely to support further growth within the high-tech industry. After advancing by 5.7% last year, the sector should post another outsized increase of nearly 5% this year. Still, the only partial repeal poses a roadblock for some firms, with plans by Paypal to expand in the state remaining shelved.

The state's large manufacturing sector poses some constraint to growth. The sector contracted last year, shaving half of a percentage point off overall economic growth – mostly related to lower chemical manufacturing activity. Some weakness is likely to persist, with Dow Chemical Co. recently relocating a plant from Greensboro to Michigan. Durable manufacturing activity will also remain under pressure with heavy-equipment producer CAT continuing to lay off workers as it shuts down production at its Morganton plant, which was hit by a slowdown in demand from the mining industry. Still, North Carolina's attractive corporate tax rate should incentivize manufacturers that are looking to expand to consider locating in the state. Next year, we expect growth to return to the manufacturing sector, assisted by a strengthening in domestic and global demand.

Maryland/Virginia: Higher federal defense spending to support growth

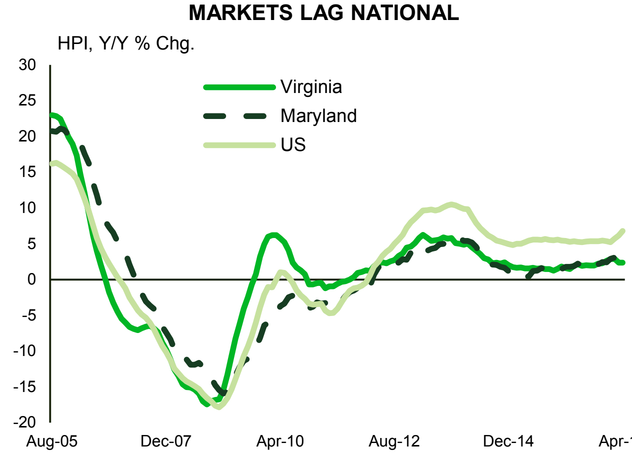
After a lackluster performance last year, both Maryland and Virginia will see growth accelerate to an average of 2.3% and 2.0% over this year and next, respectively, narrowing the gap with the national. The acceleration will be supported by expansion within the professional and technical services industry, which stands to benefit from growing demand for information technology services, including cybersecurity, as well as increasing federal spending on defense.

CHART 7: PAYROLLS GROWTH INHIBITED BY HB2



Source: BLS, TD Economics.

CHART 8: VIRGINIA AND MARYLAND HOUSING MARKETS LAG NATIONAL



Source: Corelogic, TD Economics.

The IT sector has become an increasingly important part of the regional economy given its skilled labor force and proximity to the internet backbone. These competitive advantages leave the regional industry well positioned for further growth. Amazon Web Services is set to expand at its home location in Northern Virginia by adding 1,500 IT jobs. In Maryland, growth should be boosted by the recent creation of the Excel Maryland program, designed to attract cybersecurity and biotech startups to the state, which is quickly becoming the national leader in cybersecurity.

While the potential for reductions to federal non-defense spending could weigh on the region, any drag is likely to be offset by rising federal defense spending. This is particularly the case in Virginia which receives more federal defense dollars than any other state. Maryland also has the potential to benefit from federal defense-related spending provisions, being home to several contractors including Lockheed Martin and Northrup Grumman.

Despite the pick-up in incomes stemming from the addition of high-skilled jobs, the housing market in both states continues to underperform. This is related to the overhang of shadow inventory and slow population growth, which have kept price growth muted (Chart 8). Lack of price growth has left many homeowners in negative equity positions, limiting expansion in consumer-driven industries including retail trade and financial services. Moreover, the inventory overhang continues to weigh on new construction and hiring in the housing sector. Fortunately, the expansion of the Port of Baltimore will provide some offsetting support over the near-term in the construction as well as transportation industries.

Delaware: Professional services to rebound

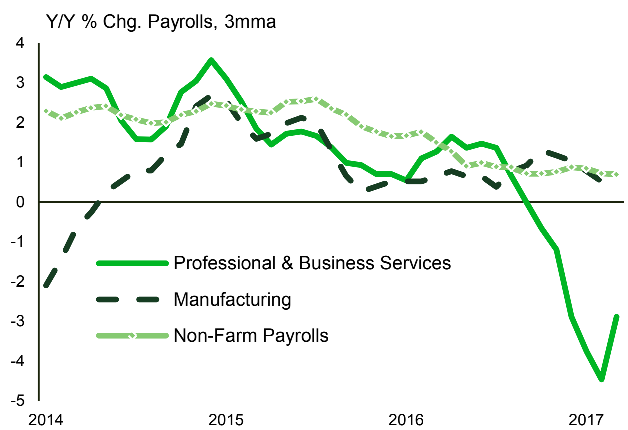
Delaware's economy continues to improve and is on track to expand by almost 2% this year and next, proving that last year's lull in growth was temporary. The nearly flat growth last year was related to sharp declines in professional & technical services and manufacturing, which together subtracted 1.7 percentage points off the economy's overall tally. However, more recent data suggest that these areas have started to make a gradual comeback. Elsewhere, most other sectors continue to fare well this year, with overall employment remaining relatively healthy (Chart 9), while the relatively tight labor market continues to feed through to strong wage growth.

The professional, scientific, and technical services industry experienced the most pronounced contraction on record last year, with output falling by 14.5%, but this effect looks to be temporary and partly related to changing business structures. Moreover, the recent Supreme Court ruling that requires patent lawsuits to be filed in the state where the defendant is incorporated should provide support to the state's professional industry. Two-thirds of Fortune 500 companies and over 1 million other businesses are incorporated in Delaware, with the region likely to see a spike in professional activity. In addition, the sector should benefit from the state's proposed program that offers tax credits to investors in high-tech startups under the Angel Investor Job Creation and Innovation Act. Signs of labor scarcity in this industry have already started to materialize, with wage growth running at double-digit pace this year.

Demand for Delaware's tourism-related services also remains high. Trends in Sussex County, the area containing key tourist hot spots along the southern coast of the state, have already begun to reflect these prospects with the county's labor force increasing by 1.2% y/y in April – or triple the pace of the state as a whole. Strong hiring in leisure and accommodations should be supported by domestic tourism, as discretionary spending rises across regions within driving distance of the beaches and casinos that dot the southern coastline. Tourism and construction could get a boost from a commitment by Governor Carney to allow the redevelopment of multiple industrial sites along the state's coast previously barred under the Coastal Zone Act.

The positive news is somewhat offset by the subpar hiring and layoffs in financial-related positions that weighed on employment growth. Restructuring initiatives undertaken by financial conglomerates will continue to constrain growth in the former industry this year as HSBC and Barclays cut 600 jobs by the end of 2018. Despite this near-term setback, consumer credit growth looks to be on an upward trajectory and should lead to brighter prospects over the medium-term.

CHART 9: PROFESSIONAL SERVICES WEIGH ON HEADLINE PAYROLLS



Source: BLS, TD Economics.

LOWER SOUTH ATLANTIC (FL, GA, SC)

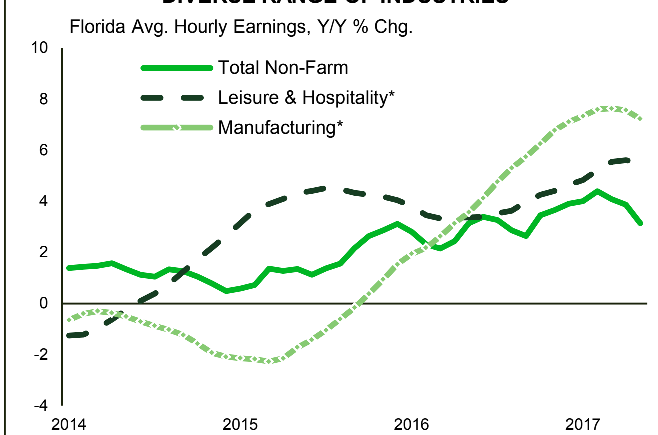
Florida: Sunshine state going high-tech

The Florida economy grew by 3% last year, nearly double the national pace. This outperformance is expected to persist, with growth in the Sunshine State expected to reach 3.3% this year before easing to a still-strong 2.9% in 2018. Underpinning this favorable outlook will be an expansion in several areas such as manufacturing, professional and technical services, healthcare, and tourism.

Strong hiring in these sectors in recent months has helped send the unemployment rate down to near a decade low of 4.3% in May. The tightening labor market is feeding through to wage growth. Average wages are now rising by over 4% y/y, their fastest pace since 2008, and gains are more than 5% in manufacturing and leisure and hospitality (Chart 10). Better job prospects and strengthening wages have enticed workers to enter the labor force at the fastest pace since 1990 (Chart 11). The ongoing recovery in participation and employment rates is helping lift household incomes and raising consumption in the state.

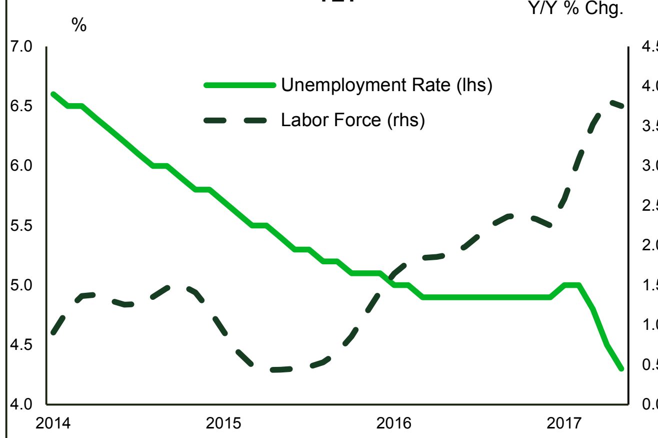
Manufacturing still accounts for a relatively small share of GDP in Florida, but has seen its share rise thanks to rapid expansion among high value-added manufacturers. The aerospace industry is looking to add some 1,300 jobs by the end of 2018 to ramp up production. A federal defense contract to build missiles will see Lockheed Martin add an additional 500 jobs in the Orlando region, while Raytheon was selected to supply computer components for the U.S. Army. As such, the manufacturing sector will be a significant contributor to growth in Florida with further upside potential related to the recently signed US-Saudi Arabia weapons deal.

CHART 10:STRONG WAGE GROWTH SPANS DIVERSE RANGE OF INDUSTRIES



Source: BLS, TD Economics. *12mma

CHART 11: LABOR MARKET AT TIGHEST LEVEL YET



Source: BLS, TD Economics.

High-tech is a sector that's lifting growth in the state. Florida's tech start-ups have attracted the eleventh highest amount of venture capital funding during the first quarter of this year, with South Florida accounting for nearly two-thirds of it. As some of these start-ups succeed and grow in the coming years, they will become engines of job growth. While the prospects for the high-tech sector are bright, potential downside risks stemming from immigration reforms loom large, given the industry's reliance on a global talent pool.

Florida's more traditional industries are also doing well. The favorable climate and a rebound in real estate values in the Northeast, is manifesting in rising numbers of retirees heading to the state after years of softer inflows that followed the recession. The older age groups typically spend substantially on healthcare services, benefitting expansion in that industry. They also boost demand for real estate, which should be further shored up by increases in household income gains. Residential permitting activity should rise to nearly 130 thousand this year and 140 thousand next year, supporting further growth in payrolls within real estate, finance and construction.

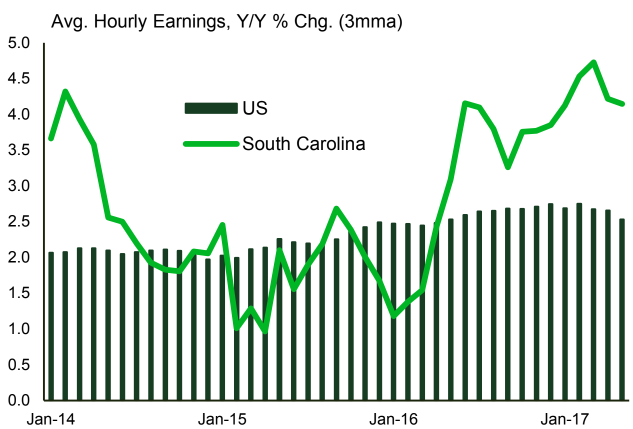
Tourism will also remain a key source of growth. While foreign tourism slowed on account of the higher U.S. dollar over the past few years, demand has been more than offset by domestic tourism underpinned by rising household incomes nationally and low gas prices. Recent additions to tourist attractions have also helped entice more visitors to the region, with Disneyworld's World of Avatar and Universal Studios' Volcano Bay both opening last month.

South Carolina: Manufacturers and tourism to bolster growth

South Carolina is poised to maintain growth in line with the national average over the next two years, supported by ongoing progress in a wide range of industries. Robust hiring has led the unemployment rate to a cyclical low recently, with the tighter labor market pushing wages up by a healthy rate of over 4% y/y so far this year (Chart 12). Hiring has been particularly strong in the large manufacturing sector, and the related wholesale trade and transportation industries (Chart 13). But, the higher-skilled professional and technical services industry is also exhibiting strength. The robust hiring and wage growth is bolstering household incomes and helping support consumption. Overall, South Carolina's economy is on track to extend its 2%-plus economic growth streak to six years by 2018.

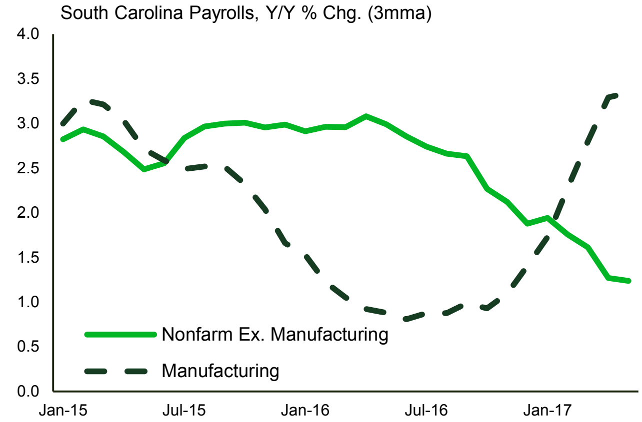
Export-exposed manufacturing activity has been picking up in recent months, supported by a weakening in the dollar since its peak in January. Importantly, the lingering uncertainty around the direction of international trade policy hasn't dissuaded investment and hiring in the sector, with Volvo's new Berkley County plant in need of 1600 workers over the next twelve months while Daimler's plans to begin production will require 1300 workers. These investments have also led to job creation by suppliers and within the logistics sector – case in point, Wanli Tire Corporation and Tower International have announced hiring plans. The addition of an inland port in Dillon County should provide further opportunity for the sector's expansion as will the deepening of the Port of Charleston which will facilitate access to overseas markets. This is particularly important for the auto manufacturing sector, where domestic sales have likely reached a peak in the current cycle. Having said that, potential for trade disputes that could result in tighter market access for U.S. exports poses a significant downside risk for the state economy which is twice as exposed to international trade as the nation.

CHART 12: SOUTH CAROLINA WAGE GROWTH OUTPACES NATIONAL



Source: BLS, TD Economics.

CHART 13: MANUFACTURING SECTOR HAS OUTPERFORMED RECENTLY



Source: BLS, TD Economics.

High-skilled services employers have also been faring well so far this year, with professional & technical as well as real estate & lending services showing particular strength. The latter is a result of an improving residential property market where strong demand has pushed home prices above their pre-recession peaks. Housing demand will continue to be supported by retirees that opt for the milder South Carolina climate rather than the Florida heat. Healthy demand and robust home price growth appears to be catalyzing residential development. Permits have rebounded to their highest level since 2008, with strong residential investment expected to support construction payrolls going forward.

Domestic tourism has also been a solid contributor to growth recently. Demand from retirees, along with holiday-makers, helped by a strengthening national labor market and sliding gasoline prices, have been key drivers. These themes are expected to continue as Americans devote more of their hard-earned income towards discretionary purchases. While some of the picturesque destinations that dot coastline were ravaged by Hurricane Matthew last year, a large portion of the state budget is dedicated to restoring the beaches and should ensure vacationers come back. This bodes well for the leisure and hospitality industry that has suffered as a result of the hurricane.

TD State Forecasts	Real GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Housing Starts (thousands)			Home Prices (% Chg.)			Population (% Chg.)		
	2016*	2017	2018	2016*	2017	2018	2016*	2017	2018	2016*	2017	2018	2016*	2017	2018	2016*	2017	2018
National	**1.6**	**2.2**	**2.1**	**1.8**	**1.5**	**1.1**	**4.9**	**4.4**	**4.2**	**1,177**	**1,250**	**1,339**	**5.4**	**6.2**	**4.9**	**0.8**	**0.8**	**0.8**
New England	**1.7**	**1.9**	**1.6**	**1.3**	**1.2**	**1.0**	**4.0**	**4.0**	**4.0**	**33**	**36**	**40**	**3.4**	**4.2**	**3.3**	**0.2**	**0.2**	**0.2**
Connecticut	1.0	1.3	1.1	0.3	0.4	0.5	5.1	4.9	5.0	5.6	5.0	5.5	-0.3	0.7	2.1	-0.2	-0.2	-0.1
Massachusetts	2.0	2.3	2.0	1.8	1.6	1.3	3.7	4.0	3.9	16	18	22	4.6	5.6	3.8	0.4	0.3	0.3
Maine	1.4	1.0	0.8	1.1	1.1	0.8	3.9	3.1	3.0	4.4	4.8	4.8	3.6	2.6	2.2	0.2	0.3	0.4
New Hampshire	3.0	2.4	1.9	1.9	1.7	1.3	2.8	2.9	2.8	3.7	4.3	4.1	4.1	5.8	4.4	0.4	0.3	0.3
Rhode Island	1.2	1.8	1.1	1.0	1.1	0.7	5.3	4.4	4.3	1.2	1.6	1.5	5.2	4.8	3.5	0.1	0.1	0.2
Vermont	0.8	1.2	0.9	0.3	1.0	0.7	3.3	3.2	3.2	2.0	1.9	1.8	0.8	3.2	3.0	-0.2	-0.0	0.1
Middle Atlantic	**0.9**	**1.7**	**1.6**	**1.3**	**1.3**	**0.9**	**5.1**	**4.5**	**4.5**	**83**	**95**	**97**	**2.0**	**4.5**	**3.9**	**-0.0**	**0.0**	**0.0**
New Jersey	1.2	1.8	1.4	1.5	1.4	0.9	5.0	4.2	4.3	26	28	30	1.3	3.3	2.6	0.1	0.1	0.1
New York	0.8	1.4	1.7	1.5	1.3	1.1	4.9	4.3	4.3	35	42	41	2.2	5.7	4.7	-0.0	-0.0	0.0
Pennsylvania	1.1	2.2	1.6	0.9	1.1	0.8	5.5	4.9	4.8	22	25	26	2.2	3.3	3.2	-0.1	-0.0	-0.0
Upper South Atlantic	**1.1**	**2.0**	**2.2**	**1.6**	**1.2**	**1.2**	**4.7**	**4.4**	**4.4**	**117**	**134**	**142**	**2.9**	**2.7**	**3.0**	**0.7**	**0.8**	**0.8**
District of Columbia	2.4	1.8	1.7	1.7	1.2	1.1	6.0	6.0	6.1	3.9	4.5	4.5	3.1	4.7	5.3	1.6	1.3	1.0
Delaware	0.3	1.9	2.1	1.1	0.8	1.1	4.4	4.7	4.9	5.8	6.3	6.8	1.6	0.3	0.7	0.8	0.8	0.8
Maryland	1.3	2.4	2.2	1.4	1.7	1.2	4.3	4.3	4.3	17	18	19	2.0	2.6	3.5	0.4	0.4	0.4
North Carolina	1.6	2.2	2.3	2.4	1.2	1.4	5.1	4.8	4.6	57	66	71	4.5	4.7	4.2	1.1	1.1	1.1
Virginia	0.6	1.8	2.1	1.5	1.2	1.3	4.1	3.8	3.6	30	36	37	2.0	1.7	1.8	0.5	0.8	0.9
West Virginia	-0.9	1.3	1.7	-1.1	-0.1	0.5	6.0	4.8	4.5	2.7	3.3	3.3	4.1	-1.6	2.0	-0.5	-0.6	-0.6
Lower South Atlantic	**2.9**	**2.8**	**2.5**	**3.1**	**2.2**	**1.8**	**5.1**	**4.6**	**4.4**	**196**	**227**	**245**	**7.0**	**5.2**	**4.9**	**1.5**	**1.6**	**1.6**
Florida	3.0	3.3	2.9	3.5	2.4	1.9	4.9	4.5	4.2	112	128	139	7.5	5.5	5.0	1.8	1.9	1.9
Georgia	3.0	2.2	1.8	2.8	2.3	1.8	5.4	5.0	4.9	52	62	67	6.2	4.4	4.1	1.1	1.2	1.2
South Carolina	2.1	2.1	2.3	2.4	1.6	1.3	4.9	4.4	4.3	32	37	40	5.2	5.2	5.2	1.4	1.2	1.2

Source: BEA, BLS, Census Bureau, CoreLogic, TD Economics. Forecasts by TD Economics as of June 2017. * Historical value.