U.S. QUARTERLY STATE FORECAST

TD Economics

September 26, 2016

New England

- New England's economy will underperform the nation over the 2017-18 period, with growth averaging 1.7%. High-tech oriented Mass. and N.H. will continue to stand out from the pack. Meanwhile, growth will remain modest in Me., Vt., R.I., and Conn., held back by demographics, weakness in core industries, and fiscal issues.

Middle Atlantic

- The Mid-Atlantic economy is expected to advance by a modest 1.1% this year, but will accelerate to 1.6% over the 2017-18 period as headwinds weighing on finance and tourism in N.Y. and mining in Pa. begin to abate. N.J. is expected to outperform by a small margin this year and next, as it catches up after a slower recovery.

Upper South Atlantic

- The Upper South Atlantic will continue to gain speed over the next two years as the D.C.-Md.-Va. economy benefits from growth in cybersecurity. N.C. will also benefit from strength in high-tech and health sciences while manufacturing takes a back-seat. Growth in Del. will remain supported by increased finance and tourism activity.

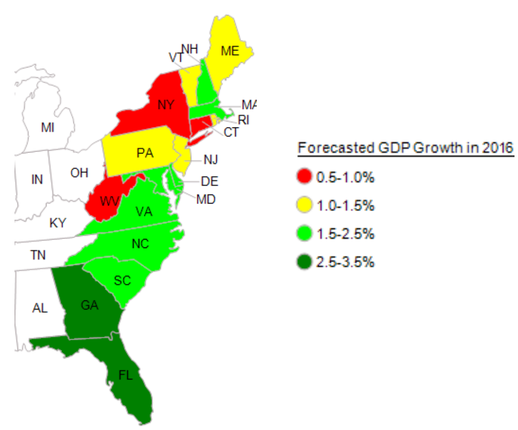
Lower South Atlantic

- The Lower South Atlantic will maintain the pole position in TD's footprint, with growth averaging just under 3%. Fla. will lead, benefiting from a broadening recovery, while housing and tourism continue to support. Meanwhile, S.C. will experience some weakness in its externally exposed sectors, but domestic strength will provide support.

U.S. Macro Themes

- U.S. economic growth averaged just 1.0% over the first half of the year. Still, personal income growth was robust and translated into strong consumer spending. Alongside an expected rebound business investment, real GDP should track above 2% over the second half of this year.
- From 1.5% in 2016, we expect real GDP growth to accelerate to 2.1%in 2017, before moderating slightly to 2.0% in 2018.
- Persistent momentum in consumer spending, wages and employment, alongside sturdy inflation dynamics provide the foothold for the Federal Reserve to hike the policy rate by a quarter-point in December.
- For additional national details, see TD Economics' Economic Forecast Update.

2016 REAL GROSS DOMESTIC PRODUCT FORECAST



Source: TD Economics. Forecast as of September 2016.

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	**1.5**	**2.1**	**2.0**	**1.7**	**1.2**	**1.1**	**4.9**	**4.7**	**4.6**	**1,169**	**1,270**	**1,386**	**5.0**	**3.9**	**3.7**
New England	1.6	1.7	1.7	1.5	1.5	1.2	4.4	4.0	3.8	31	34	36	3.6	3.8	4.0
Middle Atlantic	1.1	1.5	1.6	1.1	1.2	1.0	5.0	4.7	4.5	83	93	96	2.1	3.4	3.7
Upper South Atlantic	2.0	2.2	2.4	1.8	1.7	1.7	4.6	3.9	3.7	119	133	140	2.5	3.8	4.0
Lower South Atlantic	2.8	2.9	2.6	2.8	2.5	2.4	4.9	4.3	4.1	200	219	234	6.8	7.5	5.9

Sources: BEA, BLS, Census Bureau, CoreLogic, TD Economics. Forecasts by TD Economics as of September 2016. Note that all are forecast values.

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

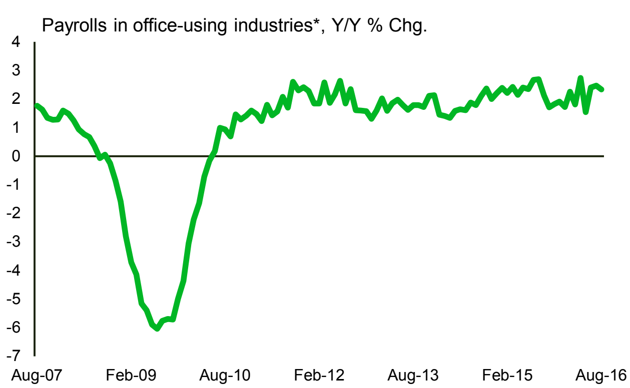
Massachusetts: Let the good times roll

The Bay State economy is on a solid course, on track to outperform the national one this year. The state will also remain the regional outperformer over the coming two years, maintaining a healthy near-2% expansion into 2018. The robust performance will extend to the labor market, which will continue to add jobs at a good clip with payroll growth slowing only moderately from 1.9% this year to 1.4% by 2018. Thanks to the swift labor market recovery, employment in Massachusetts is at the all-time high, exceeding the dot-com peak by 5.2% currently. Unemployment, on the other hand, while well below the national average, still remains above its previous trough. Robust payroll growth should absorb the remaining labor market slack, continuing on the rapid progress over the past year. The tightening labor market is pushing wages higher, with average hourly earnings outpacing the national metric.

Employment gains continue to be broad-based, but high-skilled and office-using occupations, including professional, scientific & technical services, management of companies, administrative services, and healthcare remain at the forefront of job creation (see chart). These four industries are leading hiring in the service sector, churning out half of all new jobs this year. Importantly, despite shaky financial markets earlier this year and an 8% pullback in venture capital investment from its record, high-tech, biotech, research and business services companies continue to expand their payrolls in the state.

On the goods side, rising homebuilding and a rotation from multifamily to the more labor-intensive single family segment, is leading to strong job gains. Construction payrolls are up 8.3% from last year in the state, growing at more than double the national pace. Despite rising construction the housing market remains very tight. The tight labor market, robust job creation in well-paying sectors and relatively fast population growth is supporting demand for housing, which continues to outpace supply. The lack of inventory is restraining sales and pushing prices higher. This is particularly true for the Boston metro where prices are now 30% above their pre-recession peak, while state-wide prices have fully recovered. Supply bottlenecks should ease somewhat as previously started buildings get completed, but conditions are expected to remain tight for some time given the robust demand.

MASS. HIGH-VALUE INDUSTRIES KEEP ADDING JOBS AT A STEADY CLIP



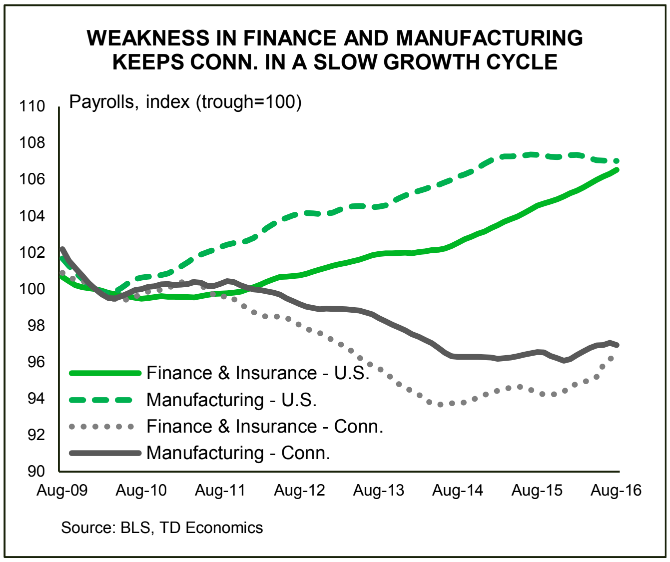
* Includes information, finance & insurance, real estate, professional & technical, management of companies, administrative services.
Source: BLS, TD Economics

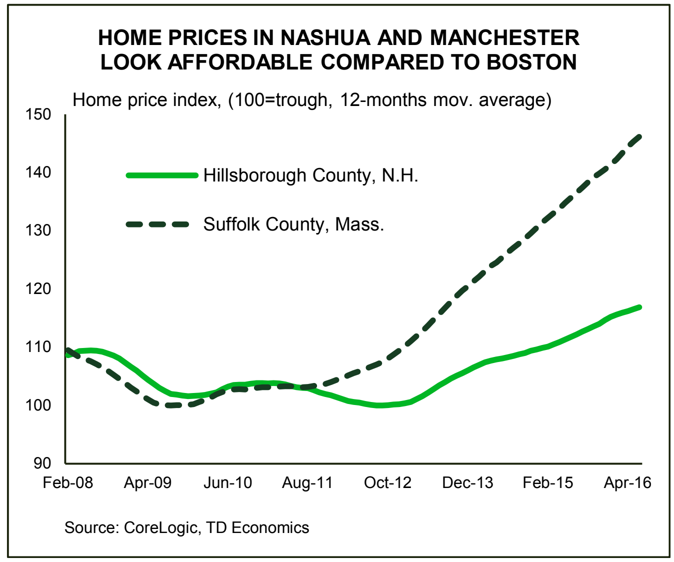
Connecticut: Stuck in the slow lane

The Connecticut recovery has been extremely sluggish, with both payrolls and GDP yet to recover to their pre-recession levels. The loss of high-paying jobs in the outsized finance, insurance, and manufacturing industries is the main culprit behind the chronic underperformance. While nationally financial services and manufacturing have been adding jobs over the last few years, they continued to downsize in the state (see chart). Finance & insurance payrolls remain 10% below pre-recession levels in Conn. despite bouncing back nationally. The diverging performance is partly related to the state's exposure to European banks which were hard-hit by the recession and the Eurozone crisis and remain poorly-capitalized. As a result, UBS and RBS have trimmed their headcount in the state by more than half. Finance & insurance payrolls have ticked up recently, on account of increased hiring by health insurance companies, but the state's financial industry is unlikely to return to its former glory with many European-based banks continuing to consolidate.

Weakness in traditional high-paying sectors, lack of population growth and soft economic momentum will also continue to negatively manifest in the housing market. While home prices have made substantial gains nationally, they have largely continued to stagnate in Conn. and are expected to edge down by 0.5% this year before rising by just 1.3% in 2017. Declining population is also weighing on residential construction, which will likely remain soft in the coming years.

State finances have also been challenged by the weak economic climate. Connecticut has faced budget deficits over the past several years, and the last biennial budget for FY2016/17 has not been an exception. To address the shortfall, the state will need to dip into its rainy day fund





and to slash spending, with as many as 2,500 state government positions expected to be eliminated or not backfilled. In addition to job cuts, the precarious financial position continues to weigh on business sentiment given the potential for higher taxes down the road.

While weakness in core industries continues to cast a shadow on the state economy, recent performance has not been without bright spots. In particular, job growth has picked up in office-using sectors, such as real estate, rental and leasing, information, and professional, scientific & technical services. However, these alone will not generate enough momentum to push Conn. into the fast lane.

As a result, the economy expected to continue to chug along, expanding by 1% this year and 1.3% over the 2017-18 period. Moreover, given the significant ties of the state's financial and manufacturing industries to those of the U.K. and the E.U. there remains a notable downside risk related to any potential Brexit fallout.

New Hampshire: On a rebound

New Hampshire should see faster growth this year as it rebounds from last year's weather induced winter slowdown. State GDP expanded by nearly 3% (annualized) in the first quarter of 2016 – more than twice the pace of the national economy. Growth will be more moderate through the rest of the year as the temporary boost gradually dissipates, but will nonetheless still average an impressive 2.4% – triple the 2015 pace.

The labor market is also expected to fare well, with employment advancing by 1.6% this year – only slightly below the national metric. After reaching a 17-year low in April, the unemployment rate has been edging higher over recent months. However, this dynamic is a testament to the health of the state labor market. The labor market has begun to pull discouraged workers back into the labor force, which is currently growing at the fastest pace in more than a decade.

In addition to the weather-related rebound this year, the Granite State economy will benefit from diminishing drag on tourism-related industries related to the lofty dollar. Last year's rapid appreciation of the greenback vis-à-vis the Canadian dollar took a bite out of cross-border travel, shopping and exports. However, the dollar has eased slightly from its peak level this year, and while it is expected to remain elevated over the forecast horizon, the bulk of the adjustment is likely in the rear-view mirror.

The construction and real estate sectors should also lend more support to the economy thanks to a pickup in home sales, which are up 12% relative to the same period last year. Strong demand, rising home prices, and falling inventory levels have led home builders to ramp up construction. Building permits in the larger and higher-value added single-family segment are up 40% year-to-date. Housing markets in Nashua and Manchester could further gain from potential relocations from Boston, where home prices continue to reach new peaks, adding to the already-large pool of commuters from N.H. Prices in Hillsborough County, N.H. have risen by 20% since trough, but remain affordable relative to the 55% gain in the Suffolk Country, Mass. (see chart).

All in all, the N.H. economy is expected to continue to perform well over the forecast horizon, supported by its outsized high-tech and healthcare sectors, low tax environment and positive spillovers from Boston's vibrant economy. However, relatively slow population growth and older demographics will keep growth pinned below the 2% mark, averaging a sub-national 1.6% over 2017-18 period.

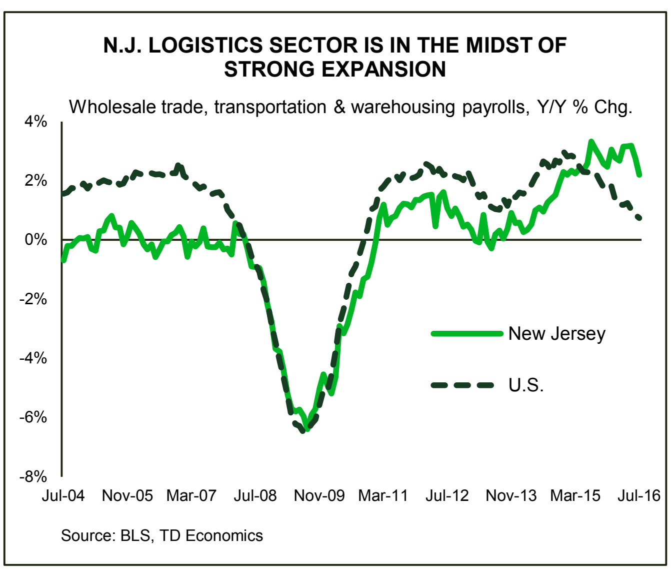
MIDDLE ATLANTIC (NJ, NY, PA)

New Jersey: Recovery is on track

After a strong finish to 2015, New Jersey's labor market performance has been more choppy and subdued. This is partly related to the Verizon strike that temporarily distorted payrolls data. In addition, construction jobs bore the brunt of a stalemate over the state's depleted transportation fund that led to a shutdown of all non-essential road projects since July. Leisure and hospitality payrolls also took a hit with another Atlantic City casino, the Taj Mahal, closing its doors following four other closures in 2014. The losing streak has raised the possibility of bankruptcy and potential state takeover of the city's finances, and may result in additional cuts to local government payrolls down the road.

The weakness has nudged the jobless rate up by one percentage point so far this year. But, the tide should soon turn. Overall dynamics in the labor market remain generally positive apart from these isolated events. Job growth is expected to advance by 1.2% this year, allowing payrolls to finally return to their pre-recession peak by year-end. This performance should extend into 2017, with employment and GDP expected to increase by 1.1% and 1.7%, respectively.

Most industries should add to the headline tally, but the logistics sector will be a particularly bright spot for the Garden State (see chart). Companies continue to favor New Jersey for setting up fulfillment centers and warehouses to service their e-commerce operations, thanks to its proximity to large population centers, access to ports and expansive transportation network. Amazon is slated to open two additional facilities, adding 2,000 staff. Expansions in the industry are also helping shore up demand for commercial real estate, leading to improvement in vacancy rates and spurring new construction projects. Over the longer-run, the transportation sector should also get a boost from the recently completed Panama Canal expansion, once upgrades to the Port of New York/New Jersey are fully implemented by the end of next year. That being said, for a sector reliant on the efficient movement of goods, the ongoing stalemate over infrastructure funding poses a downside risk.



Source: BLS, TD Economics

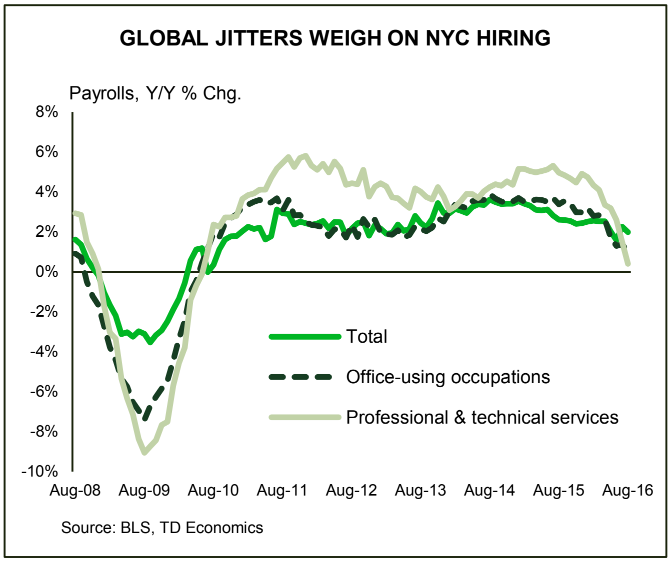
Positive developments are also emerging in the state's high value-added industries. After a tough few years, the finance & insurance industry has been adding jobs for several quarters. Professional services should benefit from Ernst & Young's move of at least 1,000 employees from Manhattan to Hoboken. Furthermore, the beleaguered pharmaceutical industry is showing signs of stabilization. Allergan reaffirmed its intentions to stay in N.J. and will consolidate its operations in the former Pfizer campus in Madison.

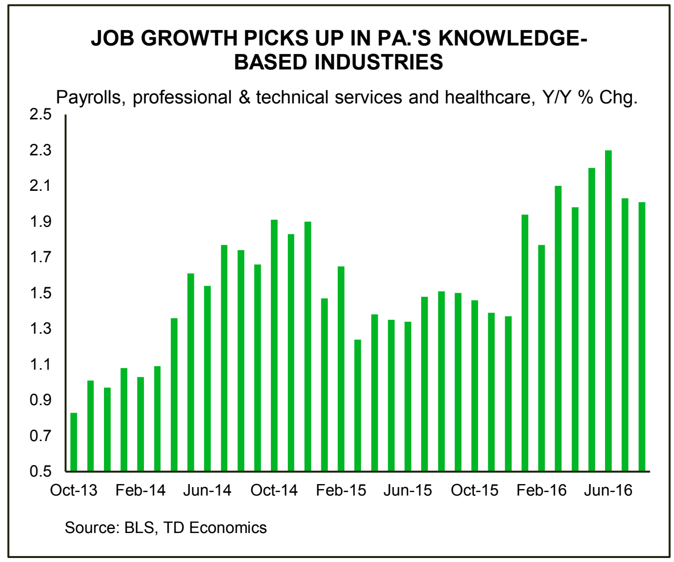
The strengthening economic recovery is lending a helping hand to the long-underperforming housing market. Year-to-date sales of existing homes are up by 13% from last year and have helped bring down the inventory of homes to around 7 months' of sales – less than half the level in 2011. Still, home price growth and single-family construction are expected to remain lukewarm over the next two years due to the oversized stock of foreclosed homes – the largest in the nation in relative terms.

New York: NYC's job engine shifts into lower gear

The Empire State economy has decelerated this year, with employment and GDP expected to advance by 1.3% and 1%, respectively, down from the 1.7% and 1.4% last year. Weaker hiring in New York City – a key driver of job creation in the state – is the main reason behind the slowdown. NYC payrolls were on a robust streak during the recovery, outpacing the national metric. However, a slowdown in tourism-oriented sectors and renewed weakness in the financial industry have taken a toll.

A soaring greenback and sputtering global growth has eaten into NYC's tourism sector. Occupancy and average room rates are down from a year ago, while retail sector employment has contracted in five out of the last seven quarters. Global factors have also manifested in the financial sector. Rocky markets earlier in the year and lower interest rates have weighed on Wall Street profitability, prompting some layoffs and other cost-cutting measures. Wall Street jitters appear to have spread out to related professional and business industries based in NYC (see chart). After expanding at a near 5% pace last year, sectoral job creation decelerated to 0.8% y/y in August and to an ever lesser 0.4% y/y in





the highest skilled professional & technical segment. The combination of all these effects has materialized in diminished appetite for high-end properties within Manhattan's real estate market. Home price growth slowed sharply in recent months and is trailing that of the state for the first time since the recession.

Despite the many headwinds, the worst appears to be in the rear-view mirror. Financial markets have calmed with all three major U.S. equity benchmarks reaching all-time highs. Moreover, the Fed will likely raise its rate in December, which should help support financial sector profitability. Alongside some modest acceleration in global growth, the drag from international tourism will diminish over time. Accompanied by a robust performance in domestically-oriented industries, such as healthcare & education, construction, and information, these trends will help GDP growth pick up to 1.4% and 1.7% in 2017 and 2018, respectively.

Pennsylvania: Resilient services sector offsets blues in mining and manufacturing

Weakness in the natural gas extraction industry and manufacturing combined with slow population growth will hold back Pa. in the medium term. After expanding by an average of 2% in the past two years, GDP growth is expected to moderate to 1.2% this year. Last year, the mining sector alone contributed over a quarter of economic growth. But Marcellus natural gas production has plateaued, as investment in new drilling activity dwindled. For the first time in more than a decade, the industry is not expected to contribute to economic growth this year. Payrolls have also taken a hit, with sectoral jobs down 26% from last year. Fortunately, the bulk of the adjustment in the energy sector appears to be behind us. Natural gas prices are up 70% in the last six months and Marcellus wells are amongst the lowest cost nationally. The number of drilling rigs is on the rise once again, with production likely to follow. As such, receding headwinds from the mining sector will help GDP growth grind higher to 1.5% next year and 1.8% in 2018.

Additional support to the economy will stem from resilient service sector activity. Especially encouraging is the upswing in knowledge-based industries, such as professional & business services, healthcare, and education (see chart). These industries generated more than two-thirds of all new jobs so far this year. The state's high-tech sector is likely to grow in the coming years. Pittsburgh is already home to Carnegie Mellon robotics institute and is hosting Uber's driverless car research and testing center.

The logistics sector will remain an important source of new jobs and investment in Pa. Lehigh Valley and the I78/I81 corridor continue to attract distribution hubs for e-commerce, given the proximity to population centers. Several retailer and distribution companies have been rapidly increasing their footprint across the state, with Amazon's 13 warehouses and distribution centers now occupying around 9 million square feet of space – second only to California. Dredging the Port of Philadelphia to 50 feet to accommodate bigger ships traversing the expanded Panama Canal will cement the region's significance as a distribution hub.

Lastly, despite state finances continuing to face rising long-term liabilities, the public sector is expected to be less of a headwind. Following a budget stalemate which delayed funding for school districts and local governments last year, the state legislature passed the FY17 budget on time. As a result, school districts and local governments face a more certain funding environment this fiscal year. Moreover, the education budget has been expanded by $200 million, a 3.5% increase over the prior year, helped in part by a slew of new revenue measures in the fiscally challenged state.

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

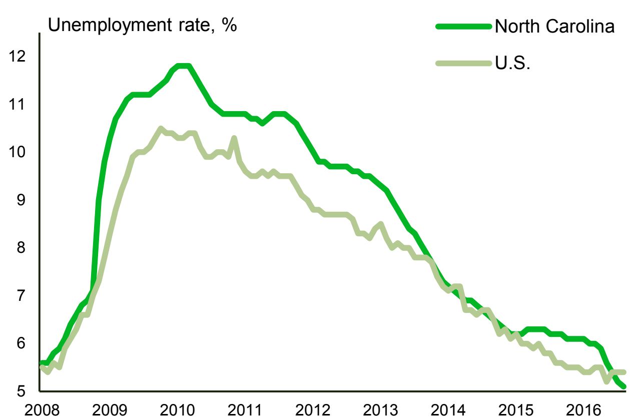
North Carolina: Manufacturing takes a back seat

North Carolina's economy is expanding at a robust pace. Job growth remains strong and unemployment is declining – the jobless rate fell below the national in July and continues to trend lower (see chart). Nonetheless, the manufacturing sector's expansion has slowed recently, weighed down by a high-flying U.S. dollar, lukewarm global growth, and the downturn in commodities. Illinois-based heavy equipment maker, Caterpillar, will cease manufacturing some components used in large mining trucks at its Winston-Salem plant, and is likely to face further lay-offs atop of the 60 jobs that were eliminated earlier this year.

On the other hand, higher-tech firms have fared better, evidenced by many expanding in the state. Colorado-based design technology company, Prescient, pledged nearly $19 million in investment to the state and plans to employ over 200 skilled workers. This will help support professional, scientific and technical payrolls, which are already growing by a very robust 5.8% y/y. The bulk of these gains have been concentrated in the Research Triangle Park, as high-tech and health sciences firms continue to flock to the area. Cochlear implant device firm, MED-EL, is the most recent to join the pack, breaking ground on a new headquarter in Durham earlier this month. A much lower cost of living relative to other high-tech hubs, such as Boston and San Francisco, is providing an attractive proposition for firms looking to set up shop. Many of these startups are attracting venture capital into the state, with N.C. firms receiving over $700 million in VC funds over the last four quarters.

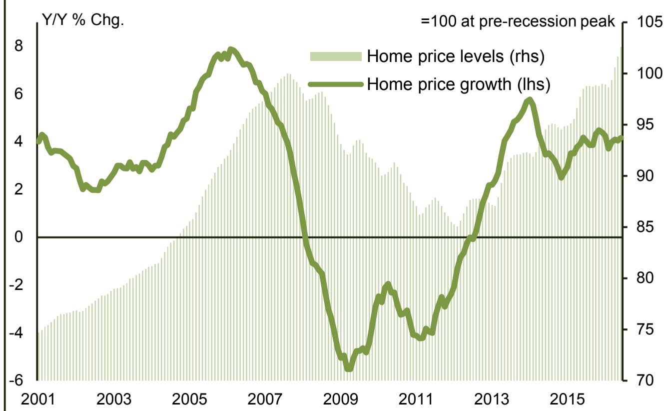
Expansion in this relatively well-paying sector is contributing to an already tight labor market that is manifesting

JOBLESS RATE REACHES 9-YEAR LOW, FALLING BELOW THE NATIONAL RATE



Source: Bureau of Labor Statistics, TD Economics

STRONG HOME PRICE GROWTH SENDS PRICES ABOVE PRE-RECESSION PEAK



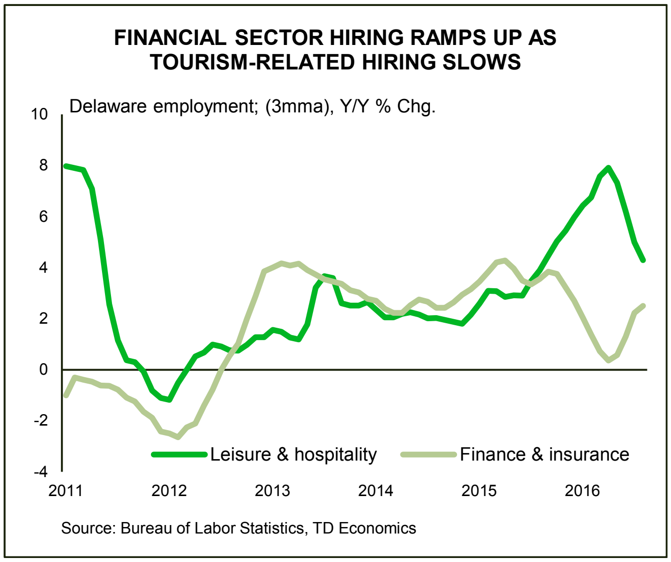
Source: Corelogic, TD Economics

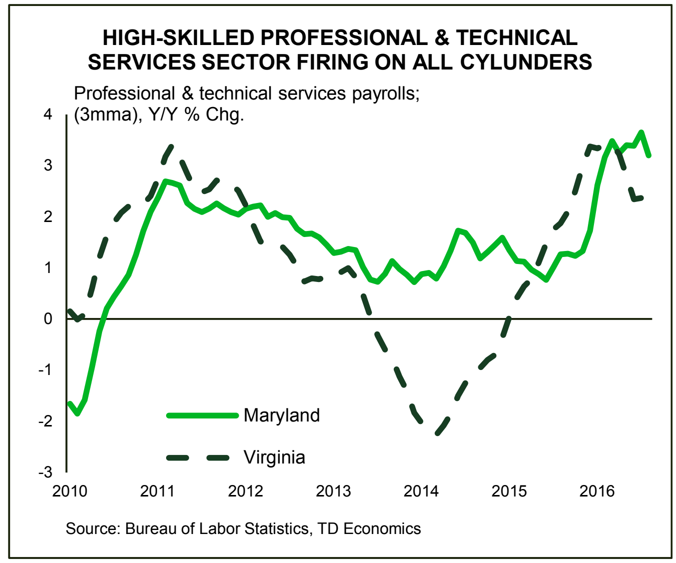
in strong wage gains. The boost to incomes from a 5% y/y clip in average hourly earnings should encourage spending and support housing demand. Home prices in North Carolina experienced a more muted boom-bust cycle relative to the nation, but are nonetheless passing their pre-recession peaks (see chart). Stronger demand and price growth should encourage builders to resume construction, with permitting activity still less than half that prior to the recession. This should, in turn, provide a further boost to construction activity; the sector's payrolls are already rising by a robust 4.4% y/y.

Moving forward, manufacturing will not provide the same support that it did earlier in the recovery. House Bill 2 (HB2) will also continue to negatively impact business activity. The act was passed in March of this year and has since stalled a number of planned expansions. Nonetheless, strength and continued diversification in the economy will provide more than enough of an offset to render healthy levels of output. Moreover, talks around repealing HB2 are making headway with many state and local businesses placing considerable pressure on government officials. As such, we expect economic activity will still come in above that of the national this year at 2.0%, accelerating even further to 2.2% and 2.5% in the coming years.

Delaware: Financial sector hiring ramps up

Delaware's economy continues to move along at a good speed. Strong employment growth sent the jobless rate to a post-recessionary low of 4.1% by mid-year. This took place despite strong labor force growth, with tightening conditions attracting people to rejoin the labor force. Employ-





ment growth has slowed recently, but should remain strong enough to keep the unemployment rate low.

Much of the past gains in employment have been related to hiring in tourism related sectors. Hotels, restaurants, and entertainment venues have added jobs at a red hot pace. Indeed, a slew of new hotels came online at the end of last year, boosting demand for hospitality workers at the beginning of this year. Hoteliers continue to justify the construction boom citing a number of improved performance metrics, such as revenue per available room (RevPAR) and occupancy rates. While slowing in recent months, growth in leisure and hospitality payrolls will likely pick up. Six more hotels, currently under construction, are expected to open their doors by the end of the year.

In the meantime, Delaware's large financial sector has taken on the role of a job engine (see chart). The outsized finance industry has once again started to add to payrolls after weakness at the start of the year. Planned expansions by credit card issuers in the state over the medium term will underpin job momentum in this sector.

Continuing expansion in finance and tourism related sectors should keep the state outpacing the nation, at 2.0% this year, before picking up to a healthier 2.2% in 2017. Delaware should also get a boost from an increasing numbers of retirees moving to the state. Housing and health-care industries are likely to benefit the most from this dynamic.

D.C.-Md.-Va.: Distribution centers open while cyber boom continues

The negative effects of past federal spending cuts are dissipating, and with that, employment growth is strengthening. Jobless rates are down sharply from last year, with unemployment approaching the 4% level in Md. and falling below that level in Va. Despite some volatility in recent months, payrolls continue to expand at a healthy pace in Md. and Va. Hiring in D.C., on the other hand, has fallen after considerable strength was recorded earlier in the year, but should remain supported given the upcoming elections in November.

Importantly, the high-skilled professional & technical services sector, long the economic backbone of the region, appears to be finally firing on all cylinders. This is evident in the sector's payrolls; employment is up 2.7% in Va. and an even higher 3.2% in Md. (see chart). Growth should remain upbeat, supported by expansion amongst cybersecurity firms. The region is quickly becoming a hub for the sector.

The transportation sector is also benefitting from the region's location. D.C. metro is located within a 10-hour drive of over half of the nation's population, making it a favorable location for grocery and other distribution centers. German discount retailer, Lidl, plans to invest $100 million in a regional headquarters and distribution facility in Cecil County, Md., creating 100 new full-time jobs. Fedex too, will be opening a 300,000 sq. ft. delivery facility, employing 150 next August. Virginia is also making strides in this regard, with grocery retailer Aldi opening a 500,000 sq. ft. distribution center in Dinwiddie County – a move expected to directly create 145 new jobs.

All told, we expect the DMV economy will begin outpacing the nation this year and next as growth returns to the region. The economies of Va., Md. and D.C. should expand near the 2% mark this year, and strengthen closer to 2.5% in 2017 and 2018.

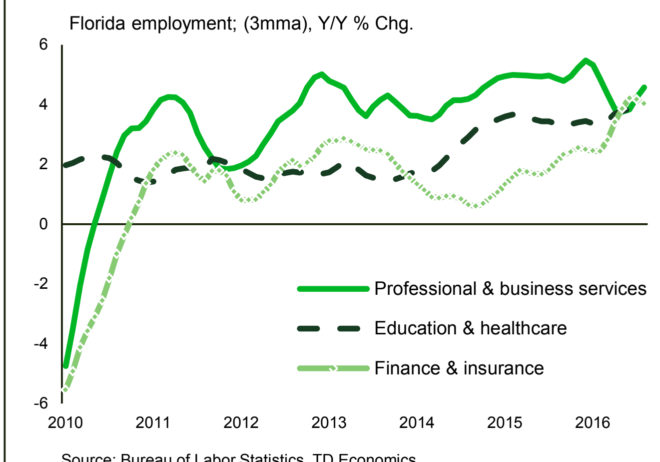
LOWER SOUTH ATLANTIC (FL, GA, SC)

Florida: Aerospace cluster makes strides

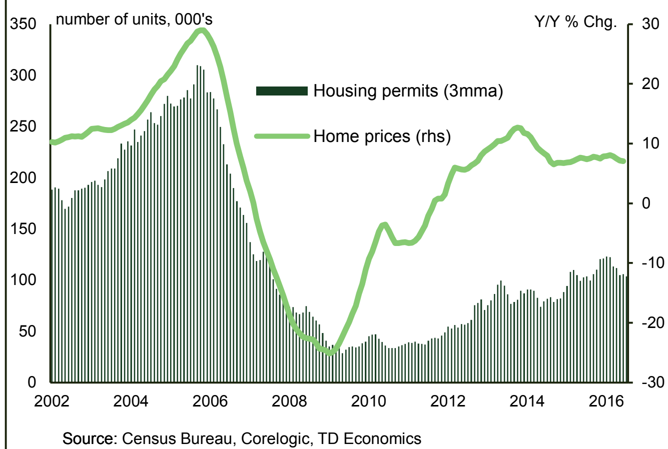
The Sunshine State continues to expand at a strong clip, outpacing the nation for four straight years. Economic growth is on track to register 3.0% this year, double the pace of the nation. This trend will remain Florida's friend. Growth should continue to hold near a 3%-handle in 2017 and 2018. In spite of an anticipated deceleration in employment growth, it too will hold well ahead of the national. At near-3%, it will be more than enough to eat up any remaining labor market slack, sending the jobless rate below 4% by the end of the forecast horizon.

All the more encouraging is the fact that hiring has been broadening. Support is still coming from the core housing and tourism related sectors, but several higher value-added services sectors, including education and health care, professional & business services, and finance & insurance are expanding their payrolls at particularly robust rates of around 4% (see chart).

After years of weakness, high-skilled jobs are once again being added to Florida's recovering Space Coast. French multinational aerospace and defense company, Thales Group, plans to expand its operations in the state, adding more than 300 employees in Melbourne and nearly 200 in Orlando, with $20 million in capital investment anticipated by the end of the decade. Lockheed Martin also anticipates adding 300 jobs in an effort to expand its Astrotec Space Operations site in Brevard County. These expansions will support continued gains in Florida's aerospace cluster and support manufacturing payrolls in the state. These positions are already growing well above 3.0% per year – their highest rates on record.



HIRING IS BROADENING OUT TO HIGHER-VALUE ADDED SERVICES SECTORS



RISING HOME PRICES ENCOURAGE BUILDERS TO PLAN FOR FUTURE CONSTRUCTION

The addition of relatively well-paying jobs coupled with a tightening labor market is propelling personal income to expand by over 5% on the year. Alongside accelerating population growth, this is manifesting in stronger household formation and shoring up demand for housing. Home prices are rising by over 7% and the strong demand is encouraging builders to plan for future construction. Permit activity remains well over 100,000 annualized and should climb near 130,000 by the end of next year (see chart). A rising number of boomers that are choosing to retire in the Sunshine State will also support construction activity, particularly in retirement hotspots such as The Villages or Naples. The additional supply should help temper price growth to a still healthy 5% pace by the end of 2017.

The forecast is not without risks. Florida is moderately exposed to international demand, especially from South America. While demand for state exports of goods and services (primarily tourism) has suffered little so far, further softness in the region could materialize more severely and weigh on the luxury real estate segment. Having said that, this downside risk is partly offset by some improved relations and trade ties with Cuba – something that is likely to prove beneficial for Florida's economy.

South Carolina: Economic growth cruising along

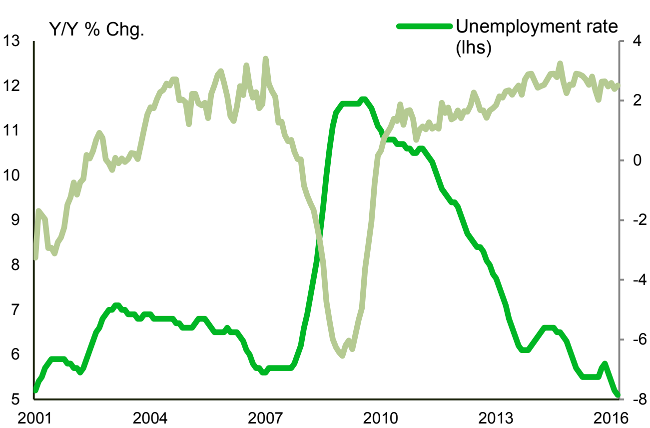
The South Carolina economy is set to expand at a relatively steady pace over the coming quarters. Employment growth has moderated from the red-hot 3% pace late last year, to a still healthy 2.5% in August. We expect payroll growth to continue near this level further into the forecast horizon. This level of hiring will remain sufficient enough to eat up the remaining slack in the labor market and should send the jobless rate lower. At 5.1%, unemployment is already the lowest in over 15 years (see chart), but should fall to the low 4% territory over the coming two years and be more in line with the nation.

The recent moderation has been largely concentrated in externally-exposed sectors of the economy, such as manufacturing. The Palmetto State economy is the fourth most export-exposed nationally – after Louisiana, Washington, and Texas. As such, external demand is of utmost importance in determining activity in the tradable goods sector. Renewed dollar strength, some of which has been further exacerbated by the Brexit vote, coupled with protracted global weakness has, and will continue to, put pressure on the state's external sector. After signaling a rebound earlier this year, goods exports have taken a turn for the worse, slowing to near stall speed (see chart).

Much of this decline can be attributed to the state's legacy industries, including textiles and apparel, furniture, tobacco, and paper products. In contrast, transport equipment shipments are growing at a very robust 16% y/y. Strength should persist in this industry due to further expansion plans in production, albeit sustaining this degree of strength on an ongoing basis would be unrealistic. Volvo and Daimler will soon join the well-established transport equipment manufacturers of BMW and Boeing, creating more than 3,000 manufacturing jobs in the next two years.

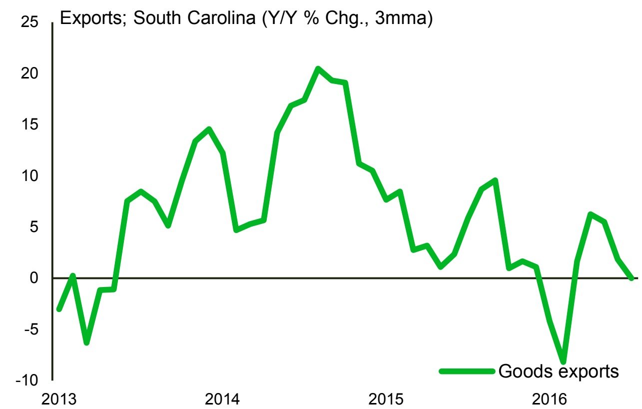
The aerospace cluster is also developing. Alongside Boeing's rising production, there are over 400 aerospace firms statewide and many are undertaking expansionary efforts. An economic impact study released last month by the South Carolina Council on Competitiveness estimates the impact of aerospace on the state economy to be around $19 billion. The same study also estimates that 1.3 jobs are created elsewhere in the state for every new aerospace job. These types of figures show how a growing cluster spurs secondary job creation.

JOBLESS RATE FALLS LOWER AMID STEADY EMPLOYMENT GAINS



Source: Bureau of Labor Statistics, TD Economics

GOODS EXPORTS TAKE A TURN FOR THE WORSE, STALLING AS OF LATE



Source: U.S. Census Bureau, TD Economics

The state economy should weather through any weakness in its externally exposed sectors, with domestic-dependent ones likely to strengthen. A tight labor market is already manifesting in rising incomes, and boosting demand for housing. Home prices are nearing their pre-recession nadir and price growth is expected to remain above 5% y/y. Builders are also ramping up construction. Housing permits are set to improve to near 35,000 units by the end of our forecast horizon – primarily driven by single-family construction.

Housing, and the economy more broadly, should also receive a lift from a new wave of baby boomers increasingly choosing to retire to the Palmetto State. Myrtle Beach and Charleston are set to benefit most from this trend, with their coastal location and beautiful surroundings proving particularly attractive. All in all, we expect economic growth this year to remain largely unchanged from the prior year at 1.9%. The state should shift back into the fast-lane of about 2.4% next year, as the domestic economy strengthens and external demand improves. As with any forecasts, risks lay on the horizon. The adoption of anti-trade policies would weigh on South Carolina due to its heavy trade dependence. This outcome will unfold in 2017 and beyond, once the new President and congress take office.

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	**1.5**	**2.1**	**2.0**	**1.7**	**1.2**	**1.1**	**4.9**	**4.7**	**4.6**	**1,169**	**1,270**	**1,386**	**5.0**	**3.9**	**3.7**	**0.8**	**0.8**	**0.8**
New England	**1.6**	**1.7**	**1.7**	**1.5**	**1.5**	**1.2**	**4.4**	**4.0**	**3.8**	**31**	**34**	**36**	**3.6**	**3.8**	**4.0**	**0.2**	**0.2**	**0.2**
Connecticut	1.0	1.2	1.5	0.9	0.9	0.8	5.6	5.0	4.7	6.4	6.5	6.5	-0.4	1.3	2.7	-0.1	-0.0	0.0
Massachusetts	1.7	2.1	2.0	1.9	1.7	1.4	4.1	3.6	3.4	14	16	18	4.8	4.8	4.5	0.4	0.4	0.3
Maine	1.5	0.9	1.1	0.8	0.8	0.6	3.8	3.6	3.4	4.4	4.8	5.0	4.0	3.2	3.1	0.1	0.2	0.3
New Hampshire	2.4	1.7	1.5	1.6	1.8	1.3	2.9	3.3	3.1	3.6	3.8	3.9	3.8	4.6	4.7	0.4	0.3	0.3
Rhode Island	1.5	1.3	1.0	1.6	1.4	1.1	5.5	5.5	5.3	1.1	1.1	1.0	5.7	5.5	4.8	0.2	0.2	0.2
Vermont	1.4	1.4	1.0	1.8	1.7	1.0	3.3	3.0	2.9	1.7	1.5	1.5	1.2	1.8	1.6	0.1	0.1	0.2
Middle Atlantic	**1.1**	**1.5**	**1.6**	**1.1**	**1.2**	**1.0**	**5.0**	**4.7**	**4.5**	**83**	**93**	**96**	**2.1**	**3.4**	**3.7**	**0.2**	**0.1**	**0.1**
New Jersey	1.4	1.7	1.3	1.2	1.1	1.0	5.0	4.9	4.7	27	29	30	0.4	1.9	2.6	0.2	0.2	0.2
New York	1.0	1.4	1.7	1.3	1.4	1.1	4.8	4.4	4.1	34	39	39	3.3	4.5	4.6	0.2	0.2	0.1
Pennsylvania	1.2	1.5	1.8	0.9	1.0	0.7	5.3	5.0	4.9	23	25	26	1.1	2.2	2.9	0.0	0.0	0.0
Upper South Atlantic	**2.0**	**2.2**	**2.4**	**1.8**	**1.7**	**1.7**	**4.6**	**3.9**	**3.7**	**119**	**133**	**140**	**2.5**	**3.8**	**4.0**	**0.8**	**0.8**	**0.9**
District of Columbia	2.5	2.2	1.9	1.3	0.4	0.6	6.1	5.5	5.3	3.8	4.2	4.2	2.6	4.5	4.9	1.4	1.2	0.9
Delaware	2.0	2.2	2.3	2.6	1.7	1.5	4.3	4.2	4.2	6.2	6.9	7.4	1.2	1.2	2.3	1.0	0.9	0.8
Maryland	2.1	2.4	2.4	1.8	1.6	1.6	4.4	3.4	3.2	18	20	21	1.1	2.8	3.7	0.5	0.5	0.6
North Carolina	2.0	2.2	2.5	2.1	2.2	2.0	5.0	4.4	4.3	57	65	69	4.3	4.6	4.1	1.1	1.1	1.1
Virginia	2.1	2.2	2.5	1.9	1.7	2.0	3.8	3.2	2.9	31	34	35	2.3	4.2	4.3	0.9	1.0	1.0
West Virginia	0.9	1.2	1.1	-0.3	0.7	0.6	5.9	5.0	4.7	2.7	2.9	3.0	0.9	2.2	2.4	-0.3	-0.3	-0.4
Lower South Atlantic	**2.8**	**2.9**	**2.6**	**2.8**	**2.5**	**2.4**	**4.9**	**4.3**	**4.1**	**200**	**219**	**234**	**6.8**	**5.2**	**4.7**	**1.7**	**1.7**	**1.7**
Florida	3.0	3.2	2.9	3.1	2.9	2.7	4.7	4.2	3.9	114	122	130	7.1	5.0	4.5	2.0	2.1	2.1
Georgia	2.7	2.5	2.4	2.6	1.9	2.0	5.1	4.5	4.4	54	61	65	6.2	5.8	5.3	1.2	1.3	1.3
South Carolina	1.9	2.4	2.0	2.3	2.1	1.7	5.3	4.4	4.1	32	36	39	5.5	5.1	4.7	1.3	1.2	1.1

Source: BEA, BLS, Census Bureau, CoreLogic, TD Economics. Forecasts by TD Economics as of September 2016. Note that all are forecast values.