U.S. QUARTERLY STATE FORECAST

TD Economics

July 7, 2016

New England

- New England's expansion will remain modest over the next two years, with growth averaging 1.4%. High-tech oriented Mass. and N.H. will outperform, while Conn. will continue to lag, held back by a weak economic recovery and fiscal restraint. Vt. and Me. will get a boost this year, benefitting from milder winter and stronger consumer spending.

Middle Atlantic

- Expansion will remain modest in the Mid-Atlantic over the next two years, with the economy advancing by 1.1% this year and 1.6% in 2016. N.J. is expected to outperform, as it catches up after a protracted recovery. Meanwhile, weakness in tourism, trade and finance will restrain growth in N.Y., and the slowdown in mining will weigh on growth in Pa.

Upper South Atlantic

- The Upper South Atlantic economy will outperform the nation over the next two years with growth averaging 2.2%. The D.C.-Md.-Va. economy is strengthening as the region's cyber boom spurs a virtuous cycle of more job creation. Growth in N.C., however, will slow as manufacturers shed jobs amidst weaker global demand and a strong U.S. dollar.

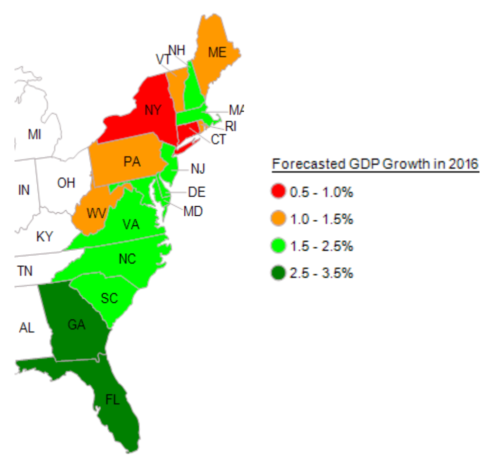
Lower South Atlantic

- The Lower South Atlantic will continue to outpace the nation over the forecast horizon with growth averaging just under 3%. Fla. will lead on strong gains in housing and tourism, while S.C.'s export-exposed economy will strengthen as demand for the state's high-value added manufactured goods continues to rise despite the strong greenback.

U.S. Macro Themes

- The UK referendum to exit the EU is likely to have a marginal impact on the U.S. economy. The channels of weaker growth will come through exports and business investment as a result of increased economic uncertainty and renewed upward pressure on the U.S. dollar.
- Nonetheless, robust domestic demand fundamentals will result in an economy that will continue to expand within a range of 1.8%-2.0% over the next two years.
- While the futures market has priced out Federal Reserve rate hikes until 2018, we believe that steady domestic growth alongside gradually higher inflation will prompt the Fed to move sooner, with two rate hikes still in play for 2017.
- For additional national details, see TD Economics' Economic Forecast Update.

2016 REAL GROSS DOMESTIC PRODUCT FORECAST



Source: TD Economics. Forecast as of July 2016.

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	**2.4**	**1.8**	**2.0**	**2.1**	**1.7**	**1.1**	**5.3**	**4.7**	**4.5**	**1,108**	**1,206**	**1,387**	**5.3**	**5.6**	**4.5**
New England	1.3	1.4	1.4	1.3	1.0	0.8	4.9	4.4	4.2	30	31	33	3.1	3.4	3.9
Middle Atlantic	1.6	1.1	1.6	1.4	1.2	1.2	5.3	4.5	4.1	106	91	104	3.0	2.3	3.9
Upper South Atlantic	1.9	2.1	2.3	1.8	1.9	1.5	5.3	4.8	4.3	110	112	127	2.1	2.1	3.3
Lower South Atlantic	2.8	2.9	2.9	3.2	2.5	2.0	5.6	5.0	4.6	174	206	237	7.0	7.5	5.9

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

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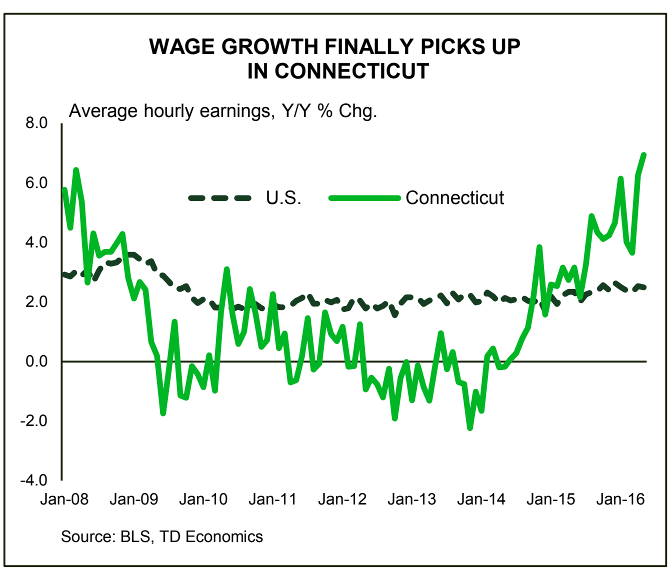
NEW ENGLAND (CT, MA, ME, NH, RI, VT)

Connecticut: Economic engine remains lukewarm

Connecticut's recovery continues to disappoint. Last year's economic growth was revised down to less than half the original estimate, expanding by a modest 0.6%. Labor market fundamentals remain lukewarm, and the jobless rate has moved higher in recent months. A protracted economic recovery, particularly within higher paying finance & insurance, manufacturing, and professional & technical services, continues to negatively manifest on the housing market, state finances and exports.

Nationally, home prices have gained 31% since the trough; however they largely continued to stagnate in Conn., increasing by just 4%. While home sales have picked up recently, rising by 20% y/y in April, the above-national share of delinquent mortgages and a soft labor market continue to weigh on home price growth. This is unlikely to change anytime soon, with price gains likely to remain muted until both the housing and labor market tighten further.

The weak economic climate is also weighing on state finances. Connecticut has been challenged by budget deficits for the past several years, and the fiscal year (FY) 2015-16 has not been an exception with the state budget facing a $316 million shortfall. Making matters worse, under current projections the deficit is expected to widen to nearly $1 billion in FY2016-17. Tax increases implemented in recent years have helped shield the state government from large cuts. However, given the structural nature of shortfalls and persistently sluggish economic growth, the state government has recently decided to slash spending in order to put the budget on a more sustainable track. This will lead to substantial across-the-board reductions to program spending leading to layoffs of as many as 2,500 state workers.



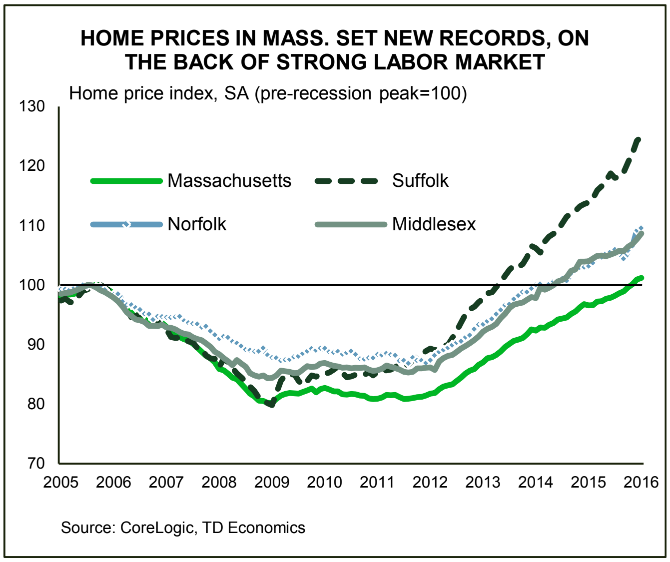
While government payrolls will remain under pressure over the next two years, private sector industries are expected to fill in much of the gap. Most industries continue to add jobs, with hiring accelerating in real estate & leasing, information, and transport. However, there is a notable downside risk from Brexit, which will loom large over the higher-paying finance & insurance and manufacturing industries, given their strong EU and UK ties. For the time being the sector has been resilient, and the positive dynamics are helping to push wages higher, with private sector wage growth accelerating to 7% y/y recently – more than double the national gain. Improved wage growth is certainly welcome news, and should give a much needed boost to retail spending and the housing market. Still, given the headwinds, economic growth should come in at a relatively muted 0.8% and 1.0% this year and next year, respectively – about half of the national gain.

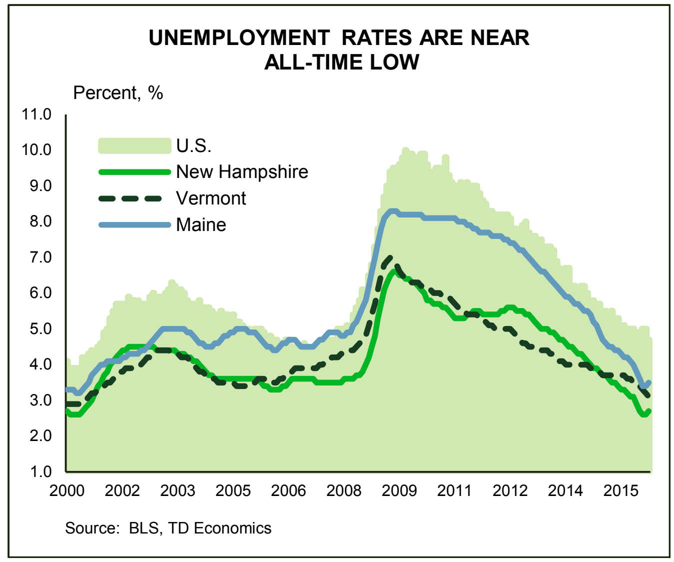
Massachusetts: Growth backed by solid fundamentals

The Bay State economy continues to fare well. The 2% expansion posted last year trailed the national, but was more than triple that in the rest of New England. Growth looks set to decelerate on account of manufacturing, averaging about 1.7% this year. An additional headwind to growth and job creation may come from tighter fiscal conditions due to the projected budget gap for FY2016-17. To address the shortfall, the governor has proposed expenditure control measures aimed to bring total spending growth to 3.5% - considerably lower than the 5.7% average over the last four years. Fortunately, the above-mentioned industries account for a smaller share of the state economy than they do nationally, which will limit the drag.

Outside of these two soft spots, the economic expansion remains broad-based, with particular strength within high-value-added industries, such as high-tech, pharmaceutical, information, finance and insurance, and research. Last year, Massachusetts' companies have attracted the largest amount of venture capital investment since 2001. While a repeat performance may be unlikely this year, given the shaky financial markets and Brexit-related uncertainty, regional high-tech and pharmaceutical firms thus far continue to hire en masse. Software companies – Krosnos and eClinicalWorks – are planning large-scale job additions. Meanwhile, Shire Pharmaceuticals has acquired Cambridge-based biotech company Dyax and Illinois-based drug maker Baxalta.

The labor market is also expected to maintain its solid momentum. Massachusetts is adding jobs at a good clip lead-





ing conditions to tighten considerably. The unemployment rate declined to 4.2%, its lowest level since 2001. This is pushing wages higher, which accelerated noticeably and are outpacing the national metric.

A healthy job market goes hand-in-hand with a robust housing sector. Sales of single-family homes and condos are up by nearly one-fifth from a year ago. While new listings and construction are rising, they are not keeping up with demand, and inventory continues to dwindle to the lowest level in more than a decade. State-wide home prices have surpassed their pre-recession peak and are reaching new records. The recovery is strongest in Boston, with prices in Suffolk County 21% above their previous peak, and surrounding counties of Middlesex and Norfolk (see Chart). Supply bottlenecks should ease as previously started buildings get completed. However, given the solid labor market fundamentals, conditions are expected to remain relatively tight for some time to come.

Me., Vt., N.H.: Consumers to open the purse strings

The economies of Vermont, Maine and New Hampshire were hard-hit by a severe winter last year, with their output increasing by a mere 0.2%, 0.4%, and 0.8% respectively. Economic activity fared much better this winter, which should help the trio to post relatively robust annual growth rates of near 2% in New Hampshire, and a mid-to-low 1% pace in Vermont and Maine. But, the temporary boost will dissipate with relatively weak demographics weighing on the region in 2017. N.H. will lead with growth at 1.7%, with help from its outsized high-tech and financial sectors.

The region is well positioned to benefit from stronger consumer spending on the back of accelerating wage growth and accumulated savings from lower gasoline and heating costs. The pace of job growth is lagging the national, but is more than enough to reduce slack given slower labor force growth. As a result, unemployment rates are hovering near all-time lows (see Chart), ranging between 2.7% in N.H. and 3.5% in Me., which is boosting wage growth.

An environment of full employment and rising incomes will support local housing markets. Home sales have picked up considerably at the start of 2016, supporting prices across the region. Home prices in N.H. remain less than 10% below previous peaks – in line with the national ones – but those in Vt. are effectively back to peak levels. Somewhat alarmingly, home values in Me. have been on a multi year rising streak and are up 16% above their pre-recession peak, helped by strong demand for vacation homes. Robust demand is also leading to higher construction activity, with permit issuance accelerating, particularly in N.H. and Me.

In light of this, construction and housing related service industries, such as real estate, rental & leasing and finance & insurance, are expected to play a larger role in the near-term. Economic growth will also likely be supported by the healthcare and tourism sector. These industries already have an outsized presence in all three states, helped by a generally older population, but should continue to expand and remain an important job creator in the coming years.

Meanwhile, manufacturing and tourism sectors will likely continue to feel the impact of greenback's strength vis-à-vis the Canadian dollar and weaker growth in Canada – the region's key trading partner. Moreover, Brexit-related volatility poses a slight downside risk in light of higher business uncertainty, as well as lower exports and tourism activity. Fortunately, much of this drag is expected to be offset by rising demand from domestic travelers.

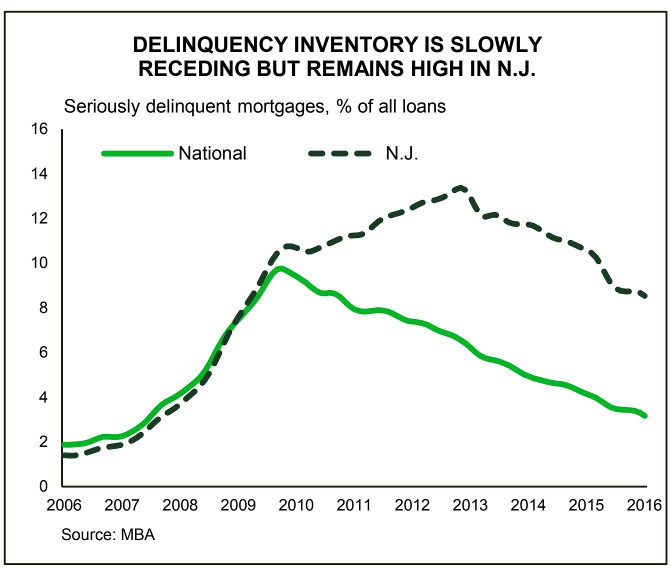
MIDDLE ATLANTIC (NJ, NY, PA)

New Jersey: Cyclical rebound continues

New Jersey's labor market ended last year with a bang as job creation accelerated to nearly 2% y/y – its fastest pace in 15 years. But, after a strong finish, the labor market sustained some job losses at the start of 2016. Still, the N.J. economic recovery should continue, with payrolls likely to advance by about 1.4% this year, finally reaching their pre-recession peak by year end. The relatively healthy performance should extend to 2017, enabling the Garden State economy to sustain a near-2% pace over the next two years – a string of growth rates in over a decade.

The strengthening labor market recovery has shored up demand for housing. In the first four months of the year, sales of single family homes are up 20% relative to the same period a year ago, with condos also selling briskly – up 15% from the prior year. The pick-up in activity is helping to draw down the housing inventory. At the current pace of sales, the inventory of single family homes would be depleted in 7.2 months, still ample but down from 9.4 months a year ago. The remaining slack will continue to limit home price appreciation until market fundamentals tighten further. Counties closest to New York City will lead this recovery, with particular strength in Hudson Country.

The proximity to large population centers and a major seaport coupled with an extensive transportation network is also bolstering demand for industrial real estate. The e-commerce boom has motivated major retailers to set up distribution centers in the state. For instance, Amazon plans to open two additional fulfillment centers employing 2,000 people. This should shore up hiring in transportation & warehousing, which is already advancing by over 4% - well ahead of the 1% y/y nationally.



Positive developments are also emerging in the high-value added industry clusters. The finance & insurance industry continues to add jobs and the worst appears to be behind for the state's battered life sciences & pharmaceutical industry. New Jersey Center of Excellence – located on the Bridgewater campus vacated by Sanofi in 2012 – is now nearly 70% leased to pharma companies. The site is expected to get a $250 million makeover into a live-work-play area, with construction slated to begin in 2017.

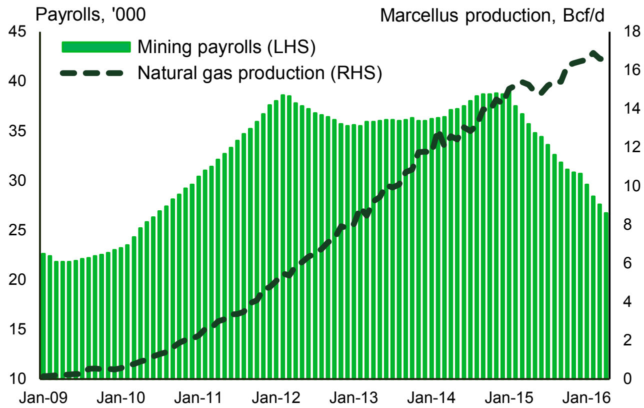
Despite these bright spots, one area which is yet to see an improvement is state government finances. The budget is on a course for a revenue shortfall to the tune of $1.1 billion this fiscal year and next. Moreover, New Jersey's long-term liabilities remain on an unsustainable path. Combined increase in pension and health benefit costs already consume 78% of the year-over-year growth in the Governor's fiscal 2017 budget, leaving little additional funds to allocate to other areas.

Pennsylvania: Slowdown in mining weighs on growth

A slowdown in mining and manufacturing activity, alongside the troubled state of public finances, will weigh on Pennsylvania's economy in the medium term. After expanding by an average of 2% in the past two years, economic growth is expected to moderate to 1.2% this year and 1.4% in 2017. Economic activity in the state will be supported by robust growth in service sector industries including healthcare, professional & business services and leisure & hospitality. The state is also benefiting from a rapid expansion in the transportation & warehousing industry, with the retailer Hudson's Bay Company recently announcing plans to open another distribution center. Resilient service sector hiring will help keep the pace of job creation steady, with employment growth averaging 0.7% this year and next.

The natural gas extraction industry has been growing exponentially in the Keystone state. Output increased twenty-fold since 2007 with mining accounting for a third of all economic gains in recent years. But, the precipitous decline in energy prices has halted the industry's rapid expansion. The number of active rigs has declined from 55 in mid-2014 to just 13, and industry payrolls are down by one-third from their recent peak. These reductions are yet to manifest in production declines due to efficiency gains, but the rate of increase is tapering off. Given the resilient supply, natural gas prices are expected to remain subdued in the medium term unless extreme weather conditions lead to a sharp inventory drawdown. As such, investment and

NATURAL GAS INDUSTRY TURNS FROM TAILWIND TO HEADWIND IN PENNSYLVANIA



Source: BLS, EIA

drilling activity will likely remain under pressure.

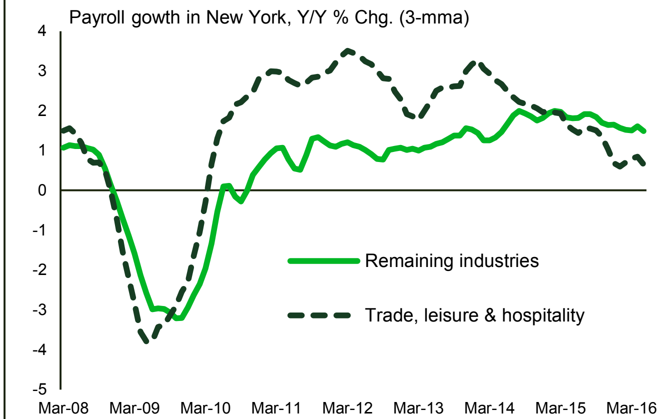
Low natural gas prices and a slowdown in drilling activity will also hurt local government coffers. Drilling impact fees collected by local governments declined by 20% last year. This will likely compound an already challenging fiscal environment in the state. After a prolonged impasse, last fiscal year's state budget was finally passed on March 28th – a record 271 days after the start of the new fiscal year. However, many key budgetary issues, including the underfunded pension plan, mounting pension liabilities, and structural imbalance, have not been addressed. This does not bode well for the upcoming fiscal year, which begins on July 1st, with the gridlock likely to resurface.

Over the longer-term, the state's natural gas industry will get a helping hand from additional demand related to an ethylene cracker – a petrochemical plant that converts natural gas into polyethylene. The multibillion dollar Royal Dutch Shell project has been given the green light. While it will not directly boost regional manufacturing until construction is compete, the building should boost demand for materials and result in about 6,000 construction jobs as work gets underway next year. Moreover, the plant's presence could help draw in related businesses and potentially create a petrochemical cluster in the Pittsburgh area, benefiting the state economy over the long-run.

New York: External headwinds persist

The New York economy finished last year with a whimper, as both economic output and employment growth stalled. Momentum picked up modestly at the start of the year, but a confluence of factors will keep the economic expansion modest this year. Real GDP is forecast to advance by just 0.9% this year, before accelerating to 1.5% in 2017 as some headwinds begin to abate.

INTERNATIONALLY EXPOSED INDUSTRIES ARE SLOWING, BUT HIRING IS RESILIENT ELSEWHERE



Source: BLS, TD Economcis

The Big Apple remains the most visited U.S. city by international travelers, but the lofty greenback and weak global growth have taken a bite out of tourism spending. Hiring in leisure & hospitality and retail, both highly tourism-oriented, has decelerated to the slowest pace of the recovery, while the average daily hotel rate slipped 8.5% relative to a year ago. Diminishing international demand has also impacted New York City's luxury real estate market, with average prices down 8% y/y across the top tenth of the market. However, demand could get a boost from a Brexit-related fallout, which will likely make NYC's real estate more attractive vis-à-vis London's.

Still, the rocky financial markets in recent months, a trend that's likely to continue given Brexit, have led to some slowdown in tourism and real estate more broadly. Persistently low interest rates and changing regulation have also increasingly impacted Wall Street profitability. The underperformance in the financial sector has weighed on the overall economic activity, given its importance as a wage engine. Industry wages account for 24% of the total wages in the N.Y. metro, more than double the national share.

Fortunately, activity remains relatively robust outside of these soft spots. Domestically-oriented industries, including healthcare, professional & businesses, and TAMI (technology, advertising, media and information) services continue to fare well. Ditto for the construction sector, which despite some easing in multifamily starts off recent records, will remain supported by several large projects that are in the pipeline. A sizeable $4bn investment into LaGuardia airport should create 8,000 new jobs alone. As such, resilience in these sectors should keep job creation going, with payrolls expected to rise by 1.3% this year and 1.5% in 2017.

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

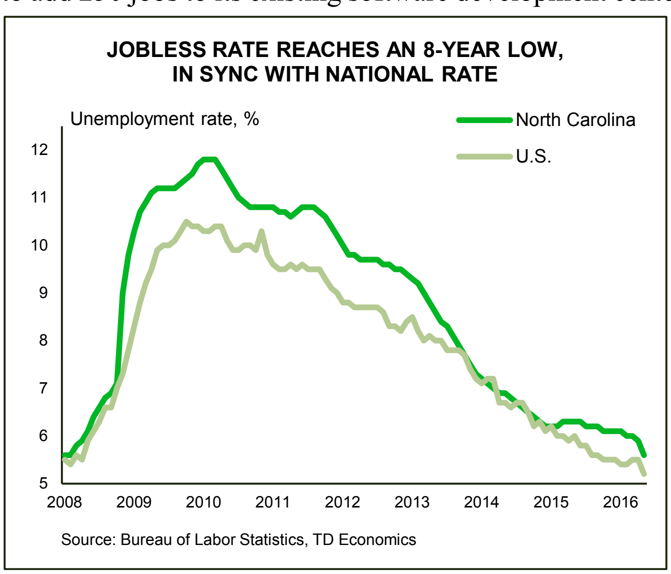
North Carolina: Heavy equipment manufacturing weighs, with HB2 posing additional risks

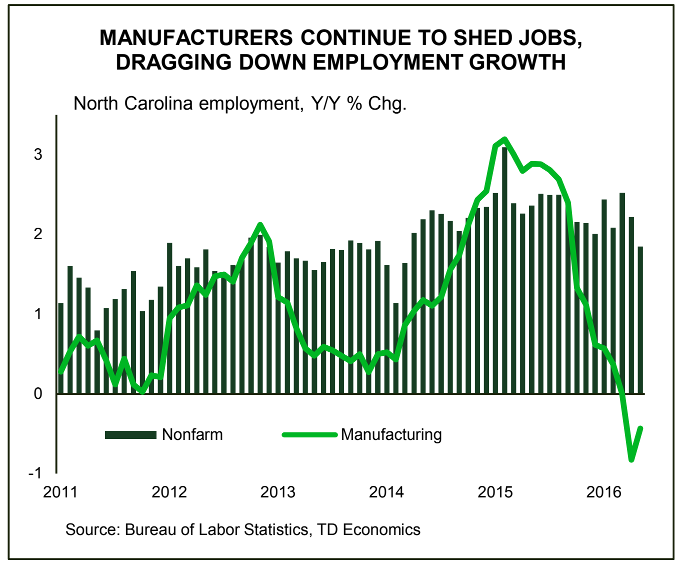
The North Carolina economy has hit a speedbump after expanding by a robust 2.7% last year. The Tar Heel State will slow to about 2.1% this year, weighed down by declining demand for heavy machinery, a lofty greenback, and negative economic effects of House Bill 2. Economic activity should pick up to about 2.3% by 2017 as global growth strengthens.

While the unemployment rate has fallen to an eight year low of 5.1%, job growth has decelerated to 1.8% from the prior year in May (see chart). However, the weakness is largely concentrated among manufacturers, who shed over 5,000 jobs in recent months (see chart).

Unfortunately, further cutbacks are planned, with Freightliner's Mount Holly factory announcing cuts of as many as 600 employees this month, atop of the truck maker's plans to lay off 200 in Gastonia. Illinois-based heavy equipment maker, Caterpillar, will also be closing its Morganton engine and undercarriage plant, as the company responds to slowing demand for construction and mining equipment worldwide. The plant currently employs 110 workers and production is expected to be outsourced to other Caterpillar plants or assigned to third-party suppliers.

While most of the weakness is still limited to the state's manufacturing sector, the vibrant Charlotte and Raleigh economies have also started to face headwinds. House Bill 2 prompted PayPal to cancel opening of a new global operations center in the Queen City – potentially costing the state 400 well-paying jobs. Deutsche Bank also is halting plans to add 250 jobs to its existing software development center





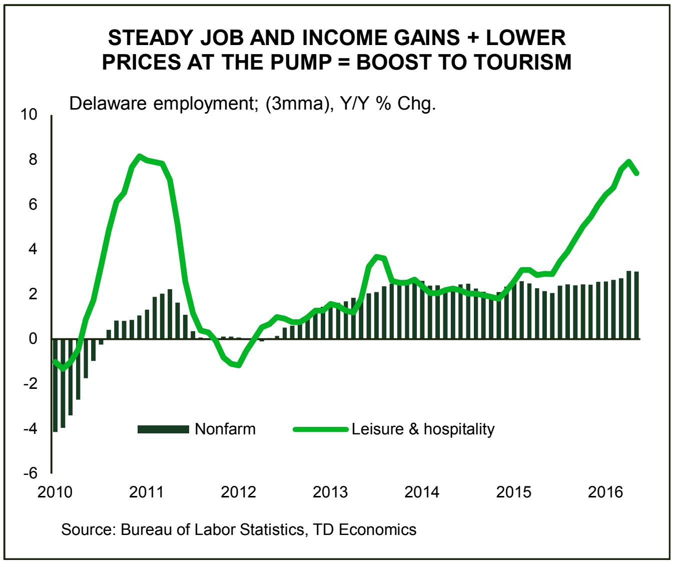
in Cary that employs 900 people. Additionally, more than one hundred other companies have joined in protest of the law, posing downside risks to our growth outlook.

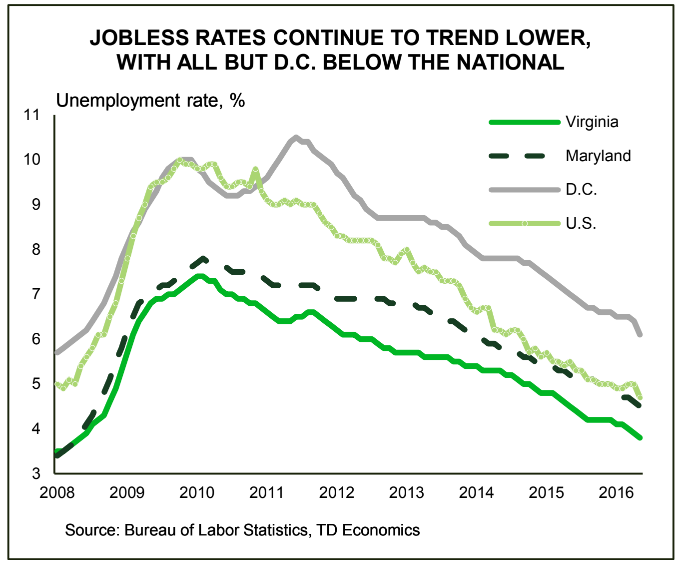
The bill has also had an adverse effect on tourism activity. Earlier this year, North Carolina's world-renowned High Point Furniture Market reported a 1% decline in registrants, with important buyers such as Williams-Sonoma boycotting the five-day event. Several concerts have also been cancelled and a potential relocation of the 2017 NBA All-Star game could deprive the Charlotte economy of an estimated $60 million in business. With hiring already stalling in the leisure and hospitality sectors, downside risks are building.

Nevertheless, there are bright spots in the economy. The IT industry, largely concentrated in the Research Triangle, continues to expand. Moreover, manufacturers of transport equipment are eyeing expansions in the state. Demmel AG is set to open a new plant in Henderson, providing parts to nearby BMW plant in S.C. and California-based Tesla Motors. The plant will not be a major employer, creating about 50 jobs in the region, but the expansion suggests that the region should benefit from positive clustering effects of nearby automakers in the future.

Delaware: Summer boosts tourism related hiring

The Delaware economy is anticipated to expand at a healthy 2.3% pace this year before moderating slightly in 2017. Job growth has been robust at 3%, leading the unemployment rate to approach an eight-year low of 4%. Employment gains will continue to chip away at any remaining labor market slack, with growth driven by the housing and tourism related sectors.





Steady job and income gains nationally continue to boost discretionary spending. This, in combination with a reinvigoration of tourism inflows has prompted restauranteurs to back a number of new projects along the state's beach towns, propelling tourism payrolls to the strongest pace of growth in over five years (see chart). While Brexit and the resultant stronger greenback will likely not have any adverse effects on the tourism industry, the state's pharmaceutical manufacturers may face some headwinds over the medium term as trade with the EU remains an uncertainty for companies, such as AstraZeneca, that are headquartered in the UK.

Nonetheless, healthy labor market dynamics are currently manifesting in a strengthening housing market recovery. Residential permitting activity is up one-fifth from the prior year. The near-6,000 annualized pace of homebuilding is almost triple the recessionary trough. The combination of ongoing strength in construction permits alongside increasing demand from retirees should produce a pick-up in activity towards the 7,000 mark by the end of 2017.

D.C.-Md.-Va.: Cyber boom spurs a virtuous cycle

Green shoots have definitely taken root in the economies surrounding the national capital after a multi-year drought. Employment growth is strengthening, and for the first time during the recovery, payrolls in both Va. and Md. are expanding by more than 2% per year, with D.C. close behind. Jobless rates are down by at least 0.7 percentage points since last year, with Va taking the cake (see chart).

The professional, scientific, and technical services sector is leading the way. After contracting in recent years, payrolls in the sector are outperforming, rising by more than 3% in Md. and Va. and are up around 2% in D.C. from the prior year. Strong demand for IT and cybersecurity services are leading to expansion in these high-skilled sectors. After adding 200 employees to its workforce last year, Md. based cybersecurity firm Tenable Network Security plans to add just as much to its roster this year, and has plans for further expansion over the coming years.

Funding has been nothing short of impressive for the sector. Venture capitalists invested over $1.4 billion last year in the region, up nearly 30% from the prior year. VC funding rounds were led by a $250 million deal struck by Tenable – a record in the cybersecurity space. Money is expected to continue to pour into the region, building on its reputation as a cybersecurity hub. A large pull-factor for some startups is the region's Mach37 cybersecurity accelerator. The 90-day program has been largely successful, with over 35 cybersecurity firms launched in Va. since 2013.

The continuing recovery in the well-paying professional, scientific, and technical jobs has led to acceleration in income growth. This has spilled over into more dining out and shopping activity, in turn boosting hiring amongst retailers and restaurants and generating a more virtuous cycle of job and income growth. Leisure and hospitality payrolls are growing by 4% to 5% in the region.

The outlook for the region is bright as its high-tech firms, previously hard-hit by dwindling federal government contracts, benefit from surging private sector demand. While the region is now less dependent on federal dollars than before, it will also benefit from a modest increase in federal spending related to the Bipartisan Budget Act of 2015. Lastly, spending at the state and local level is also expected to increase, as regional governments are moving away from budgets of austerity. Accordingly, we expect the DMV economy to expand by about 2.2% this year, before edging up to 2.4% in 2017 as a more virtuous cycle develops.

LOWER SOUTH ATLANTIC (FL, GA, SC)

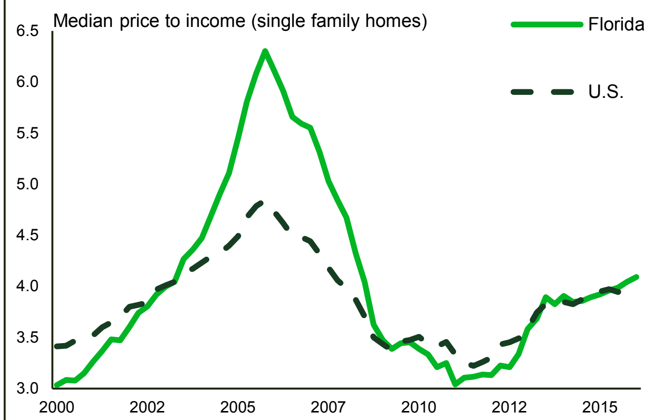
Florida: People flocking to the Sunshine State once again

The Florida economy continues to expand at a robust pace, marked by employment growth of 3.2% y/y through May despite a slowdown nationally. A state jobless rate of 4.7% is the lowest in more than 8 years (see chart). Job growth will likely decelerate as cyclical factors dissipate, but remain well ahead of the national. Likewise, the labor force is expected to continue to significantly outpace that of the rest of the country. Perhaps the best part of all within the labor market is that job demand is becoming more diverse, spreading from the already strong construction and tourism sectors to high-skilled services, including education & medical and financial services – where job growth accelerated to a decade high.

Strong growth in these services industries is largely related to increases in population – particularly retirees. Those nearing retirement age delayed moving south in the aftermath of the housing downturn, but are once again flocking to the Sunshine State with the major drawn being warm weather, the lack of income taxes, and a relatively affordable housing. Population of those at least 65 years of age has surged across the state, growing by between 5% and 10% per year in key retirement hotspots like Cape Coral and The Villages. Retirees are accounting for about half of the new residents, spurring demand for goods and services – particularly for healthcare and wealth management – with these trends likely to persist as the Baby Boomer generation continues to push into retirement.

Florida remains a hotspot for retirees, but the state is also hoping to attract working age individuals. Live-work-play developments are sprouting up in major cities, including Miami and Orlando, with the nearly complete Brickell City Centre development intentionally located at the center of the financial district. High-skilled sectors, such as finance & insurance and professional, scientific & technical services, have added payrolls at the fastest pace in a decade – more than 4% year-over-year – with the mixed-use developments likely to allow for more growth in the future. Highly-skilled jobs are also being created in Florida's Space Coast. The region is still reeling from the end of the space shuttle program and is seeking to redefine its aerospace industry. The cluster should get a helping hand from a recent decision of aerospace manufacturer Embraer to more than double its regional workforce, adding at least 600 jobs in the coming years as it opens its legacy business jet assembly line in Brevard County.

FLORIDA HOUSING REMAINS AFFORDABLE



Source: TD Economics

JOBLESS RATE CONTINUES DOWNWARD DESCENT, IN LINE WITH NATIONAL LEVEL

Source: Bureau of Labor Statistics, TD Economics

The improving labor market, coupled with strengthening population growth, is driving demand for housing, manifesting on robust home price growth. Nonetheless, affordability metrics are still relatively favorable, with the price to income ratio well under that of the previous peak and in line with that of the national (see chart). Rising demand is also leading to higher homebuilding. Permit activity has been consistently above 100,000 annualized in recent months – up about 20% from the previous year. Rising homebuilding should help price growth cool to roughly 4.5% y/y by the end of the forecast horizon.

All told, the sun will continue to shine. Real GDP growth has been outpacing that of the nation for three years, and we expect this pattern to continue. Economic activitiy is projected to average 3.1% this year and next.

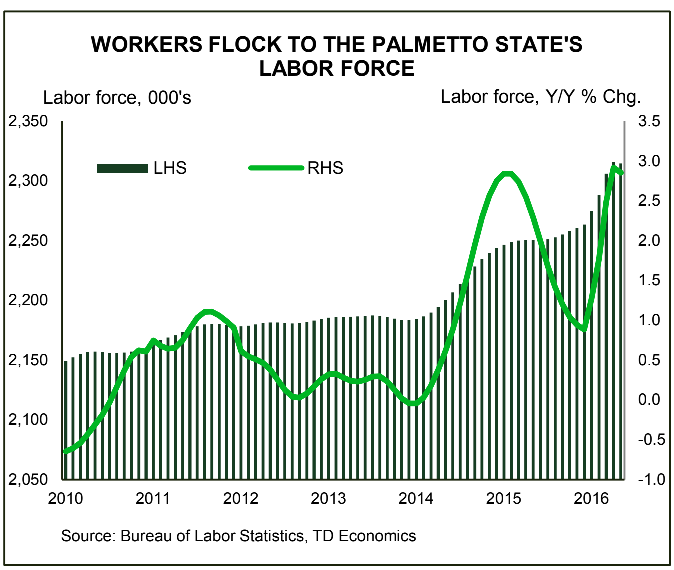
South Carolina: Exports strong despite strong dollar

A mix of positive spillovers from population and labor market inflows, alongside ongoing vibrancy in high value-added manufacturing sectors will support South Carolina's growth prospects at roughly 2.0% this year, before it steps up to a more comfortable 2.5% pace in 2017.

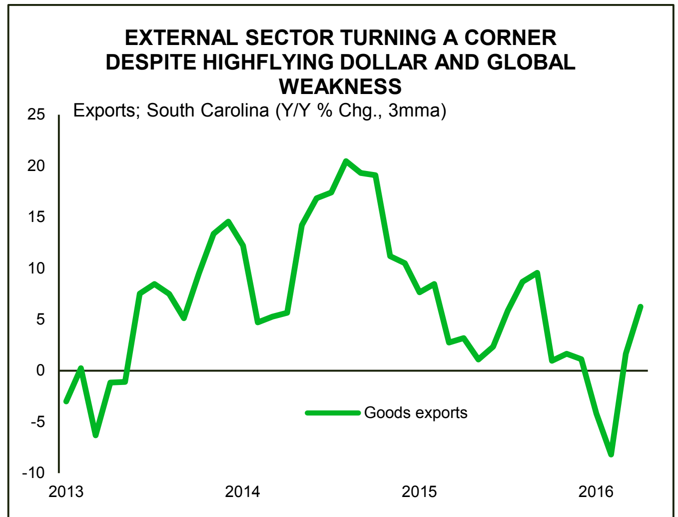
Strong job growth in South Carolina is increasingly attracting workers into the labor force, which is growing by a robust 2.9% y/y. This is the fastest pace in a quarter-century, with some 50,000 workers added this year through May (see chart). The rapid expansion in the labor force has put upward pressure on the jobless rate, which had previously fallen to a 15-year low of 5.5%. We expect the downward trend in the unemployment rate to reassert itself, heading towards 5% as the economy continues to eat up slack despite a challenging external environment.

Following closely behind construction that broke ground at Volvo's S60 plant in Ridgeville, Daimler is set to follow suit with a $500 million North Charleston assembly plant in the coming months. Although 3,000 plant workers won't likely be brought on until next year, the projects are already manifesting in significant benefits across the regional economy. Construction payrolls, for example, have risen by an impressive 8% from last year, and hiring in this sector should remain well supported over the forecast horizon given the substantial investment.

The aerospace sector is also expanding in the Palmetto State. Boeing is about to open up a new paint facility that will enable the North Charleston plant to assemble the entire Dreamliner 787-10 – a variant to be exclusively produced in S.C. Additionally, the plane maker continues to ramp-up production of other variants. A dozen planes are now being completed per month and the pace is expected to rise to 14, as Boeing chips away at an extensive order book which currently exceeds 750 orders.



Source: Bureau of Labor Statistics, TD Economics



Source: Bureau of Labor Statistics, TD Economics.

Still, the state economy is amongst the most export-exposed nationally and faces external challenges. A strong greenback and relatively weak global economic environment have slowed exports from a double-digit pace over the previous two years to nearly flat in recent months. Uncertainty surrounding the implications of the recent Brexit vote will also likely place a further strain on the external sector, hampering SC's trade with the UK to some extent while also dampening near-term inbound investment. However, many of the state's high-value added manufacturers will likely prove resilient. Transport equipment shipments are up nearly 31% on the year, thanks to persistence in demand from major export markets like China and Germany (see chart).

Importantly, many domestically-oriented sectors are faring exceptionally well. Strong job growth, particularly in the well-paying professional, scientific & technical sector, has led to robust income gains averaging 5% last year. Rising incomes coupled with low gas prices and increasing in-migration has boosted hiring in the tourism related leisure & hospitality and retail sectors, where the headcount is up a healthy 2%-3% over the past three months.

The state housing market is also exhibiting a fair bit of strength. Home prices are currently less than 5% away from their pre-recession nadir and price growth is expected to continue to accelerate on the back of rising demand. This is despite the fact that homebuilders are ramping up construction, with permits already topping 30,000 units. An increasing number of Boomers are choosing the milder S.C. climate over the Sunshine State for retirement.

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	**2.4**	**1.8**	**2.0**	**2.1**	**1.7**	**1.1**	**5.3**	**4.7**	**4.5**	**1,108**	**1,206**	**1,387**	**5.3**	**5.6**	**4.5**	**0.8**	**0.8**	**0.8**
New England	**1.3**	**1.4**	**1.4**	**1.3**	**1.0**	**0.8**	**4.9**	**4.4**	**4.2**	**30**	**31**	**33**	**3.1**	**3.4**	**3.9**	**0.3**	**0.2**	**0.2**
Connecticut	0.6	0.8	1.0	0.7	0.6	0.5	5.6	5.5	5.1	5.1	5.6	6.0	-0.1	1.5	3.1	-0.1	-0.1	-0.0
Massachusetts	2.0	1.7	1.8	1.7	1.3	0.9	4.9	4.4	4.5	15	15	16	4.4	4.1	4.3	0.6	0.4	0.4
Maine	0.4	1.4	0.7	0.8	0.9	0.5	4.4	3.3	2.8	3.7	4.1	4.5	3.0	3.5	3.2	-0.1	0.1	0.2
New Hampshire	0.8	1.9	1.6	1.6	1.5	1.1	3.4	2.3	1.6	3.2	3.2	3.7	3.7	3.5	4.5	0.2	0.4	0.5
Rhode Island	1.1	1.3	1.0	1.3	0.9	0.7	6.0	5.3	5.1	0.9	1.1	1.2	3.2	4.5	3.8	0.1	0.2	0.2
Vermont	0.2	1.5	1.1	0.9	0.9	0.5	3.7	3.2	3.0	2.0	1.9	1.9	0.6	0.5	3.2	-0.1	0.1	0.1
Middle Atlantic	**1.6**	**1.1**	**1.6**	**1.4**	**1.2**	**1.2**	**5.3**	**4.5**	**4.1**	**106**	**91**	**104**	**3.0**	**2.3**	**3.9**	**0.2**	**0.2**	**0.1**
New Jersey	1.8	1.6	1.9	1.4	1.4	1.6	5.6	4.3	4.0	26	29	32	1.7	1.0	3.1	0.2	0.2	0.2
New York	1.4	0.9	1.5	1.7	1.3	1.5	5.3	4.6	4.2	58	37	44	4.3	3.3	4.4	0.2	0.2	0.2
Pennsylvania	1.7	1.2	1.4	0.8	0.8	0.6	5.0	4.5	4.0	22	24	27	1.5	1.4	3.3	0.1	0.0	0.0
Upper South Atlantic	**1.9**	**2.1**	**2.3**	**1.8**	**1.9**	**1.5**	**5.3**	**4.8**	**4.3**	**110**	**112**	**127**	**2.1**	**2.1**	**3.3**	**0.7**	**0.8**	**0.8**
District of Columbia	2.5	2.2	2.4	1.7	1.4	0.8	6.9	6.3	6.0	4.0	3.7	4.2	4.3	1.8	3.6	1.9	1.4	1.2
Delaware	2.0	2.3	2.0	2.4	2.5	1.4	4.9	3.8	3.1	5.5	6.2	7.1	2.6	2.2	2.7	1.1	1.0	0.9
Maryland	1.5	2.1	2.4	1.5	1.7	1.4	5.2	4.5	3.7	15	16	18	0.8	1.0	3.3	0.5	0.5	0.5
North Carolina	2.7	2.1	2.3	2.4	1.9	1.6	5.7	5.3	5.2	52	53	60	3.9	3.7	4.1	1.0	1.1	1.1
Virginia	1.4	2.4	2.4	1.8	2.4	1.9	4.4	3.8	3.2	29	30	34	1.3	0.7	2.8	0.7	0.9	1.0
West Virginia	0.1	1.0	1.2	-0.6	-0.3	0.5	6.7	6.3	5.9	4.1	3.4	3.7	2.5	4.5	3.1	-0.3	-0.3	-0.3
Lower South Atlantic	**2.8**	**2.9**	**2.9**	**3.2**	**2.5**	**2.0**	**5.6**	**5.0**	**4.6**	**174**	**206**	**237**	**7.0**	**6.3**	**4.7**	**1.6**	**1.7**	**1.7**
Florida	3.1	3.2	3.1	3.5	2.6	2.1	5.3	4.7	4.2	99	120	138	7.4	6.6	4.5	1.8	2.0	2.1
Georgia	2.6	2.9	2.6	3.0	2.6	1.9	5.8	5.3	5.0	45	55	64	6.6	5.8	5.2	1.2	1.2	1.3
South Carolina	1.9	2.0	2.5	2.7	1.9	1.4	5.9	5.5	5.1	30	31	36	4.8	5.5	5.4	1.4	1.3	1.2

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