# U.S. QUARTERLY STATE FORECAST

## TD Economics

March 22, 2017

### New England

- Economic growth in New England will improve, averaging 1.6% over the next two years. But this will mask divergence within the region. High-tech oriented Mass. and N.H. will continue to lead, with growth largely in line with the nation, while the rest will chug along at around 1% in light of weaker demographics (Me., R.I. and Vt.) and fiscal restraint (Conn.).

### Middle Atlantic

- The Mid-Atlantic economy will accelerate, but will still trail the nation with growth averaging 1.7% in 2017-18. Pa.'s economy is expected to rebound as mining headwinds fade. Growth will also improve in N.Y. on account of a brighter outlook for financial services, while it will remain moderate in N.J. where payrolls will finally surpass their pre-crisis peak.

### Upper South Atlantic

- The Upper South Atlantic will gain speed over the next two years. Continued diversification will be a boon for the D.C.-Md.-Va. economy while potentially higher defense spending could provide offset to cuts elsewhere. Del. is poised to benefit from rising tourism. Manufacturing will weigh on N.C., as will HB2, but firms will still be drawn in by relatively low taxes.

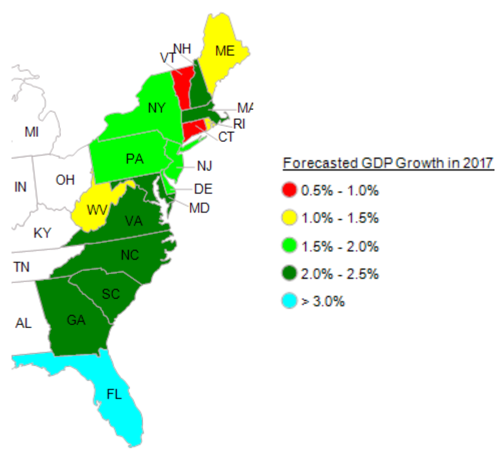
### Lower South Atlantic

- The Lower South Atlantic will continue to lead growth in TD's footprint, albeit slowing as the economic recovery matures. Fla. will outperform, with growth of around 3%. Meanwhile, the strong dollar will continue to weigh on S.C.'s externally exposed sectors. Potential implementation of protectionist policies is another risk to the relatiely externally exposed region.

### U.S. Macro Themes

- Prospects for the U.S. economy are looking up. Even in the absence of fiscal stimulus, growth appears to reach 2.2% in 2017 and 2.1% in 2018, up from 1.6% in 2016.
- Domestic demand is expected to accelerate from 2.1% in 2016 to 2.5% over the course of 2017, before moderating slightly to 2.3% in 2018.
- Core inflation is moving towards the Fed's target and rates will continue to head higher.We expect two more hikes this year with the target likely to reach 2.25% by the end of 2018.
- While we have not included an explicit fiscal lift in our forecast, meaningful deficit-financed tax cuts or spending increases present an upside to our forecast.
- For more details please see our Quarterly Economic Forecast.

**2017 REAL GROSS DOMESTIC PRODUCT FORECAST**




Source: TD Economics. Forecast as of March 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** | **1.3** | **4.9** | **4.6** | **4.4** | **1,176** | **1,270** | **1,351** | **5.5** | **5.4** | **3.7** |
| New England | 1.3 | 1.6 | 1.7 | 1.3 | 1.5 | 1.3 | 4.0 | 3.6 | 3.6 | 33 | 35 | 41 | 3.3 | 4.1 | 3.3 |
| Middle Atlantic | 1.3 | 1.8 | 1.6 | 1.3 | 1.6 | 1.1 | 5.1 | 4.7 | 4.6 | 83 | 97 | 99 | 2.1 | 4.5 | 4.0 |
| Upper South Atlantic | 1.3 | 2.0 | 2.4 | 1.6 | 1.4 | 1.5 | 4.7 | 4.7 | 4.5 | 117 | 132 | 141 | 2.8 | 4.2 | 4.1 |
| Lower South Atlantic | 3.0 | 2.7 | 2.6 | 3.1 | 2.6 | 2.1 | 5.1 | 5.0 | 4.8 | 196 | 242 | 259 | 7.0 | 7.5 | 5.9 |

Sources: BEA, BLS, Census Bureau, CoreLogic, TD Economics. Forecasts by TD Economics as of March 2017. Note that all are forecast values.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## NEW ENGLAND (CT, MA, ME, NH, RI, VT)

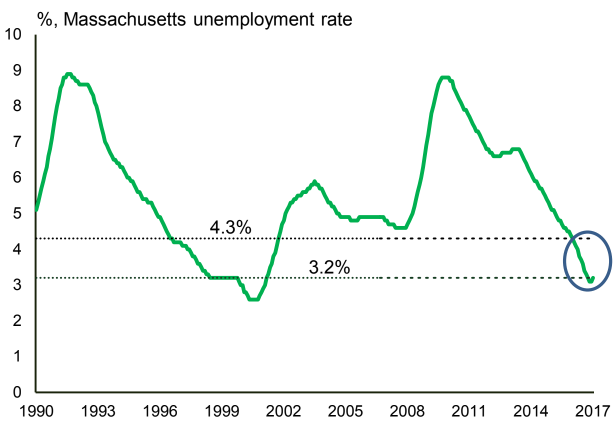
### Massachusetts: Labor engine in need of skilled workers

The Bay State economy continued to outshine most of its northeastern peers last year. Growth slowed to less than half of its outsized 2015 pace, but remained near the four-year average of 1.6%. The story was brighter for the labor market, where robust job creation of nearly 2% pushed the jobless rate down to a 15-year low of 3.2% (Chart 1).

Growth should trend slightly higher to just above 2% over the next two years, given the economy's high-tech tilt. Massachusetts ranks as one of the most innovative states and is home to a number of high value-added clusters such as robotics, biotech, pharmaceutical and more recently cybersecurity. These and other clusters will continue to benefit from the state's top-ranked universities and their proven ability to transfer research into commercial products, making up for a solid recipe which will continue to add to growth. The state's outsized healthcare segment which employs one fifth of private sector, will also lend a helping hand, buoyed by ageing demographics and its high-tech concentration. While the financial sector, which exhibited some weakness last year, should also fare better thanks to a gradually rising interest-rate environment.

Moreover, a tight labor market, rising wages and respectable population growth will continue to bode well for consumer-related industries, as well as housing and construction. Home sales were up nearly 8% last year, while inventory levels continued to dwindle, pushing up price growth. Supply bottlenecks should ease up as previously-started buildings get completed, but conditions are likely to stay tight for some time. The construction sector should remain well-supported, with activity shifting to the higher value-added single-family segment.

CHART 1: M.A. UNEMPLOYMENT RATE DROPPED OVER 1 PP IN THE LAST 12 MONTHS ALONE




Source: BLS, TD Economics.

The growth narrative extends to the broader service sector. AIM's business optimism metric has recently reached a 13-year high. Amazon, Wegmans and the U.S. Postal Service are all expanding their headcount in the state, while 3,000 job additions are also scheduled at the MGM Springfield casino next year. But with the unemployment rate already near record lows, it is becoming increasingly clear that it will be the supply of labor, not demand, that will be a growing constraint to expansion.

Shortages are prominent in healthcare, accounting and high-tech. To ease some of the pressures, many local firms utilize the H-1B visa program to attract foreign professionals, with Deloitte, PWC, Oracle and Adobe being some of the most recognizable names. Given these conditions, more restrictive immigration policies pose some downside risk. On the other hand, the state could benefit from some of the pro-growth policies under consideration, with tax reform amongst the most appealing given the state's middling performance in terms of business tax competitiveness.

### Connecticut: Accelerating but still in the slow lane

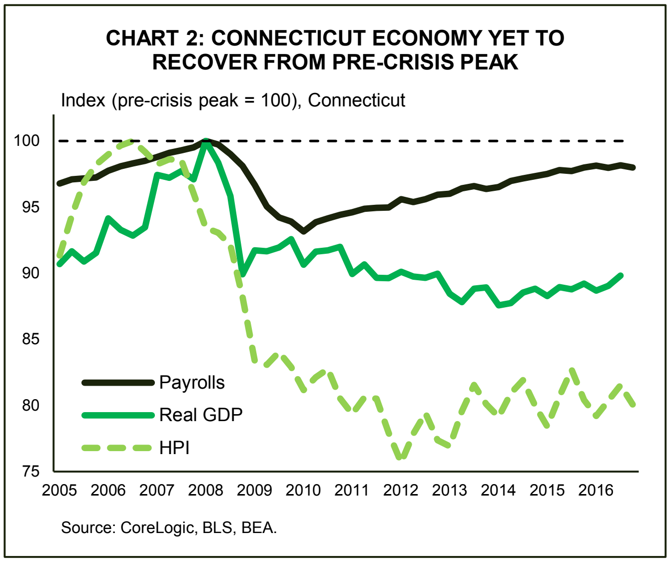
The Connecticut recovery has been extremely sluggish with payrolls, GDP and home prices yet to recover to their pre-crisis peaks (Chart 2). Job growth moved largely in line with economic activity last year, rising a very modest 0.3%. Private sector hiring was more robust at 0.6%, but was offset somewhat by falling state and local government payrolls.

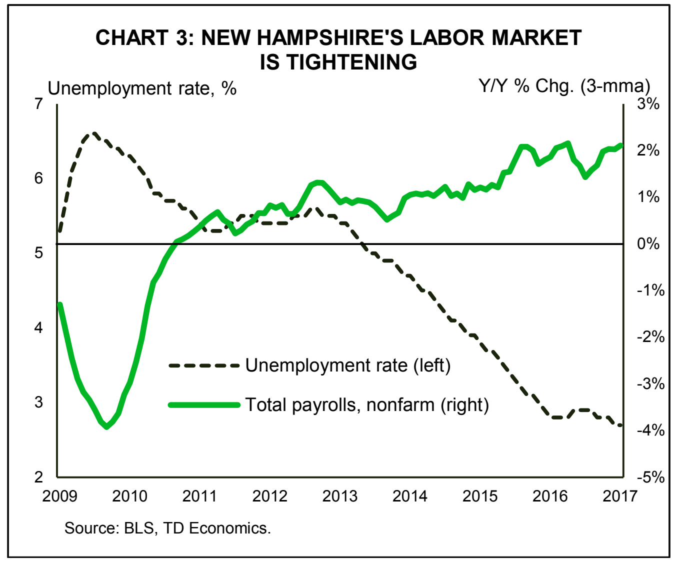
The weak economic climate has taken a toll on state finances which remain a source of economic vulnerability. The state faces a combined shortfall of $3.6 billion over the coming two fiscal years. A recent budget proposal focuses on spending cuts to balance the books, including deep cuts to agency budgets and wage and benefit concessions from state employees. The latter is projected to save $1.5 billion over the two years, but its impasse may instead result in layoffs.

Soft economic fundamentals are also contributing to outmigration, with population having shrunk by 20,000 in the last three years. This has put pressure on consumer-related industries such as retail, and taken steam out of the housing market where prices have remained flat since 2014.

Still, not all is bad news. Payrolls started off the year on the right foot and recent surveys point to an improved outlook among consumers and businesses alike. For the latter, 24% of firms expect to increase headcount – up from 19% previously. While Henkel (home care products), will move its headquarters to Stamford and create roughly 250 jobs.

Going forward, growth should receive a helping hand from manufacturing, with the big three defense-related




contractors – Electric Boat (submarines), Pratt and Whitney (aircraft engines) and Sikorsky (helicopters) – expected to ramp up production and expand headcount in the state. Meanwhile, the financial industry, which consists of many large insurance firms, should also fare better in a rising interest rate environment. All told, Connecticut is not likely to move into the fast lane anytime soon, but should still record modest growth of around 1% annually in 2017 and 2018.

Given the soft fundamentals, Connecticut's economy is likely to be very sensitive to policy changes. On the upside, the state is well-positioned to capitalize on increased military spending and to attract infrastructure investments. Tax reform could also provide some offset to high property and corporate taxes. On the other hand, given its frail state of finances Connecticut remains vulnerable to possible cuts to federal funding, while uncertainty surrounding the future of the Affordable Care Act (ACA) also poses some risk to the state's large healthcare industry. Lastly, stricter immigration policy may slow immigration flows to the state – a factor that could instead help prevent its population from shrinking.

### New Hampshire: Healthy but short of workers

Following winter-storm-induced weakness in 2015, the Granite State's economy rebounded last year, with output rising at nearly double the national pace and the top showing in the region. Hiring rose in virtually all industries with payrolls up 1.9% y/y and the jobless rate down to just 2.7% – the lowest reading in sixteen years (Chart 3).

A tightening labor market and above-national wage growth helped to fuel in-migration to the state and draw more workers into the labor force, providing added support for consumer industries. The same dynamics, coupled with positive spillovers from an increasingly unaffordable Boston housing market, have boosted demand for homes in the state. Sales were strong last year, rising nearly 9%. This year started on a softer note, but much of it was due to limited inventory – a factor that has lifted up price growth. Rising interest rates pose some downside risk, but strong demand should be the overriding factor. Encouragingly, builders have ramped up construction in the larger and higher value-added single-family segment where permits are up robustly. The added supply should help unlock pent-up sales and bode well for the real estate industry.

The state's defense and high-tech oriented industries are also likely to be important growth contributors. BAE Systems (technology and defense), secured several large contracts recently, and is in the process of expanding its workforce in Nashua. The Department of Defense is also setting up a bioresearch and manufacturing institute in the Manchester Millyard, with roughly $300 million of total investment expected. The initiative could have significant long-term upside potential as it aims to form a biofabrication cluster while helping revitalize the Millyard. In addition, Sig Sauer (manufacturer) was recently awarded a $580 million dollar contract to supply the army's replacement sidearm.

Although the state's sizable healthcare sector is poised for continued growth, buoyed by ageing demographics and decent population growth, changes to the ACA pose some downside risk. At the same time, increasingly protectionist trade policy could present a risk on the state's healing manufacturing exports. On the other hand, efforts by the federal government to revamp the military would be beneficial to the state's defense-related industries, while tax reform could further improve the state's already competitive tax climate.

All told, the relatively healthy performance should extend over the forecast horizon. But, with the jobless rate already near record lows, increasing worker shortages will likely become an overriding constraint on expansion. In this environment, we expect real GDP gains to slacken from nearly 3% last year, toward 2% over the next two years.

## MIDDLE ATLANTIC (NJ, NY, PA)

### New York: Growth to improve, but trail U.S. average

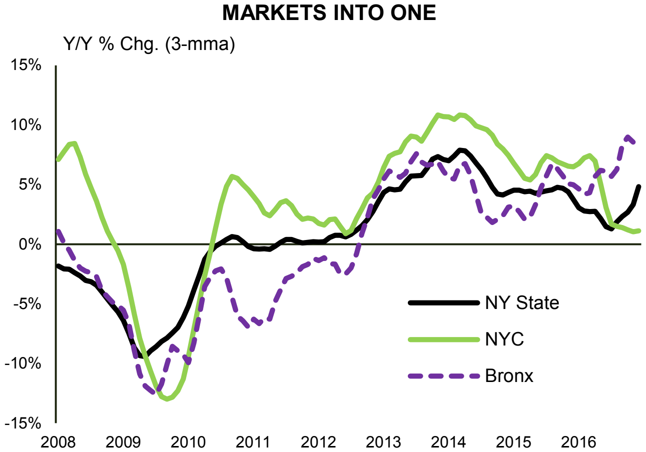
After three years of sub-1% growth, the rate of economic expansion in the Empire State is estimated to have accelerated to around 1.6% last year. This more elevated pace is expected to be maintained over the next two years, underpinned by a healthier financial sector and strength in high-skilled services. Prospects for job growth in the region also remain healthy, with nearly 300,000 net new jobs projected to be created this biennium.

Tourism-related sectors, particularly those in New York City, felt the impact of global headwinds and a strong dollar last year, with hiring across the industry decelerating to its slowest pace since the recession. But with global growth on the upswing and the impact of the past dollar's rise dissipating, we expect the industry to fare slightly better going forward, further supported by improving domestic demand.

Rising interest rates and the potential for reduced regulatory burden are expected to help the City's outsized financial sector, which forms a large part of the state economy. While we don't expect banks and investment firms to go on major hiring sprees, healthier profits should boost tax revenue and lead to stronger wage growth, supporting consumption. Income growth will also be supported by the implementation of higher minimum wage levels earlier this year.

A number of recently-announced expansions (Spotify and Blackrock among others) indicate that the Big Apple remains a magnet for high-skilled jobs in the face of fierce global competition. Meanwhile, a number of job openings in upstate communities – Buffalo (SolarCity), Malta (GlobalFoundries), and Rochester (growing photonics cluster) – offer some optimism for the rest of the state where employment will nonetheless continue to chug along at a softer pace in light of weaker demographics. Overall, manufacturing should also see some better days ahead, with surveys already signaling a significant improvement in activity.

CHART 4: NEW YORK, MULTIPLE HOUSING MARKETS INTO ONE




Source: CoreLogic, TD Economics.

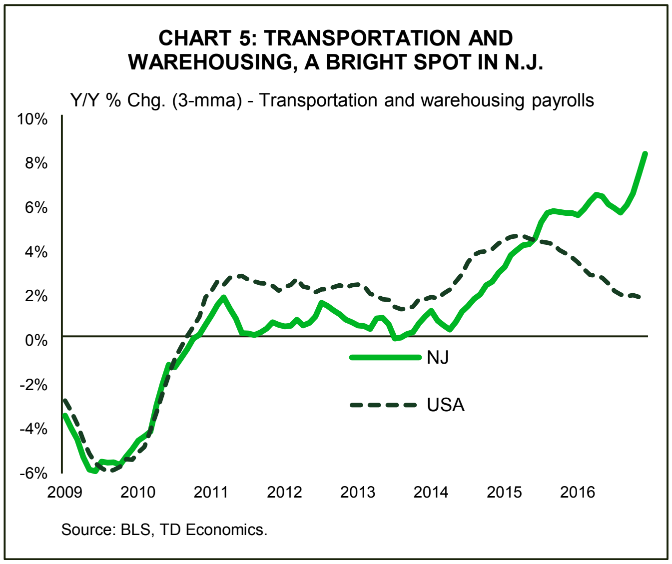
Rising interest rates, while supporting financial services, may begin to weigh on the state's multifaceted housing market (Chart 4). The high-end segment in New York City is already under pressure given the elevated dollar and lofty valuations. Entry-level buyers are now moving toward more affordable areas, heating up prices in the Bronx and Queens. In upstate NY, sales activity and home price growth have generally been on a much more solid course, but will nonetheless be affected by higher borrowing costs. Despite these pressures, the outlook for rising employment and tight inventory levels will continue to provide offsetting support and limit the potential for a correction.

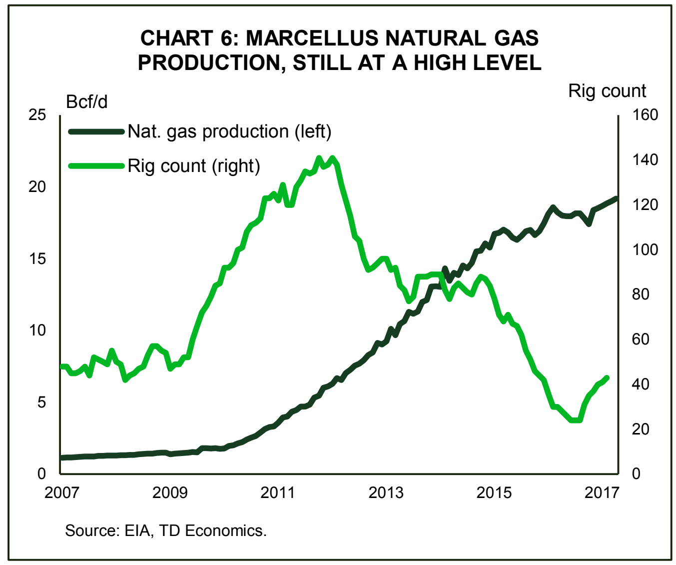
Our baseline view for moderate growth ahead is not without risks. Federal proposals around tax reform, the repatriation of corporate funds and reduced regulatory burdens could all be beneficial to the state's economy. On the other hand, the uncertainty surrounding health care policy poses some downside risk for the healthcare sector. Stricter immigration policies pose further downside risks with N.Y. relying on global talent for its high-skilled sectors. And given the state's high share of undocumented immigrants, lower-skilled service industries could also come under pressure.

### New Jersey: Moderate growth in the cards

Despite a few glitches that included a labor strike and the closing of another Atlantic City casino, 2016 marked a milestone for N.J. as payrolls expanded by 1.5%, finally reaching their pre-crisis peak. Real GDP advanced by an estimated 1.7%, down slightly from the 2.0% rate posted in 2015. Looking ahead, we expect the pace of economic expansion to hold around 1.5% annually over the next two years, with job gains likely strong enough to eat up any remaining labor market slack.

Robust job gains have shored up demand for housing, as evidenced by a 14% y/y surge in resale activity in January and a drop in inventory of unsold homes to 12-year lows. Still, home prices overall remain some 17% below the pre-crisis peak in light of a continued nation-leading backlog of foreclosed inventory. Given this overhang, it will take time for tighter housing conditions to manifest on stronger price growth. Moreover, permitting activity has picked up recently despite rising interest rates. Alongside a revived Transportation Trust Fund, this should help provide some support for construction activity, with a proposal to allocate $400 million from the fund to road and bridge repairs, and




NJ transit, potentially delivering a near-term boost.

Transport infrastructure investment is very important in the Garden State. Its vast transportation network, access to a major seaport and proximity to large population centers have made it an ideal distribution hub. The transportation and warehousing sector, supported by a booming e-commerce market, has been a definite bright spot (Chart 5), with output rising more than 5% last year – four times the national pace. Prospects for the sector remain upbeat, highlighted by Amazon's expansion plans which should create an additional 2,500 jobs over the forecast horizon.

A $300 million dollar investment to revamp the Taj Mahal casino under the Hard Rock brand is also a welcome development. In addition to creating some 3,000 jobs, the project will provide support to Atlantic City's finances, which have been under severe pressure in recent years. Despite this, a major turnaround in the state's leisure and hospitality sector is not expected during the forecast horizon.

A number of pro-growth policies under consideration at the federal level present upside risk. For instance, successful efforts to raise infrastructure investment and lower taxes would clearly benefit the state with its decaying infrastructure and elevated tax burdens. Moreover, reduced financial regulation could be an added boon for N.J.'s financial industry. On the other hand, the possibility of more restrictive immigration and trade policies pose downside risks for the state economy. At 8%, undocumented immigrants make up a significant share of the labor force, while its transport and warehousing industries rely heavily on imports which have been on the new administration's crosshairs.

### Pennsylvania: To rebound as mining headwinds fade

The commodity price decline took a heavy toll on Pennsylvania's mining sector last year, leaving economic growth in the Keystone State at close to zero. On the plus side, more recent upticks in rigs and natural gas production suggest the sector should no longer exert a drag on growth (Chart 6), setting the stage for a modest rebound in economic activity of around 1.7% annually in the 2017-18 period.

While mining-related construction projects will lend a helping hand, private services are projected to do much of the economic heavy lifting this year and next. The transportation sector is well positioned to grow in light of the state's proximity to large population centers and existing infrastructure. The sector is benefitting from expanding e-commerce activity and with distributors such as Amazon continuing to invest in the region.

Health-related sectors are expected to expand further over the forecast period, supported by ageing demographics, clustering effects and a local pool of talent. Geisinger Health System will hire 2,000 employees in multiple locations throughout the state. While expansions by Eurofins (BioPharma testing) and Penn Medicine which is expected to begin work on a new $1.5 billion patient building, also corroborate the notion that the industry is poised for growth.

Despite supporting health-care spending, weak demographics will continue to represent a constraint on the region's underlying potential to grow as well as for fiscal coffers. Budget challenges have returned to center stage due to a projected $3 billion shortfall this fiscal year. Sales or income tax hikes appear to be off the table, while spending cuts, a minimum wage hike from $7.25 to $12/hour and a supplementary tax on natural gas production are some of the options being proposed to plug the budget hole. Any reduction in business and individual tax burdens through federal tax reform that is under consideration could help soften the impact of fiscal tightening at the state level. On the flip side, reforms to health care legislation that reduce federal support and/or increase the number of uninsured could provide offsetting pressure on the state's coffers.

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

**North Carolina: Manufacturing will continue to weigh, while Reasearch Triangle Shines**

After a strong showing last year, economic growth in North Carolina is expected to slow to a pace below the national average in 2017. Part of the slowdown story reflects cooling momentum in the manufacturing sector, and notably the heavy-equipment industry. The sector's performance has been impeded recently by the recent run-up in the U.S. dollar. Manufacturers in the state have responded by constraining hiring. Manufacturing payrolls in January contracted on a year-over-year basis for the first time since the recession (Chart 7). On the plus side, recent signs of global economic pickup, together with brightening prospects for domestic capital spending, bode well for a moderate improvement in the state's manufacturing sector in 2018.

The expected soft patch in manufacturing will not be the only factor holding back service-sector activity this year. Another near-term setback has been emanating from the state's implementation of House Bill 2 (HB2). Estimates suggest that the Bill has resulted in over $500 million of economic losses last year. These have come in the form of cancelled sporting events, concerts, and other activities which have had an adverse effect on the leisure and hospitality sector. Growth in the sector slowed to one third its previous pace last year, with the softness expected to persist in the coming quarters. Importantly, the law could also negatively impact the economy's longer-run trajectory as firms that had considered setting up operations in N.C. may cancel or delay such plans.

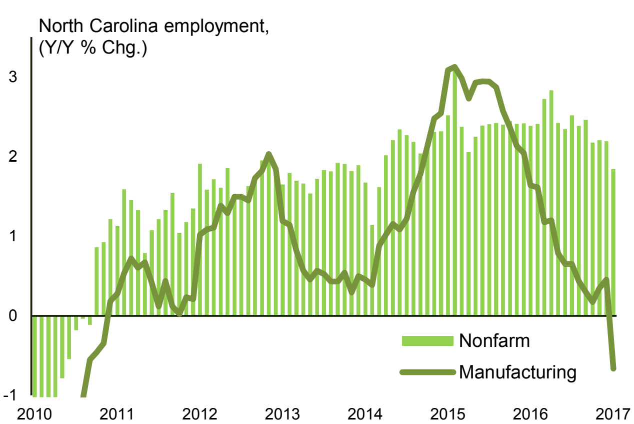
Elsewhere in the economy, near-term growth prospects appear brighter. The IT industry in the Research Triangle continues to expand. Hiring in professional and technical services sector statewide is a very strong 6.3% y/y and should remain robust. Lower costs of land and office relative to other tech hubs like Boston and San Francisco provide an attractive proposition. Furthermore, the corporate tax rate (4%) is the seventh lowest in the nation. The nearby universities and accelerators provide high-skilled workers and funding for startups. Recently, Boragen, a fungicide company, decided to move into the accelerator's Research Triangle Park facility helped along by $10 million in funding from the AgTech Accelerator. As such, despite the uncertainty of HB2, economic growth is expected to reaccelerate from this year's lacklustre 2% rate to about 2.5% in 2018, with a potential for upside should a repeal of HB2 spur more expansions in the state.

**Delaware: Tourists drive economic growth**

Delaware's economy continues to move along at a healthy speed. While employment growth took somewhat of a breather in the latter half of 2016, it appears as though the softening trend is already starting to turn a corner in the New Year, helped along by strong hiring in the tourism and healthcare sectors. Furthermore, the recent drag on the headline payrolls number appears to stem from layoffs in the professional and business services sector, and is in not expected to last.

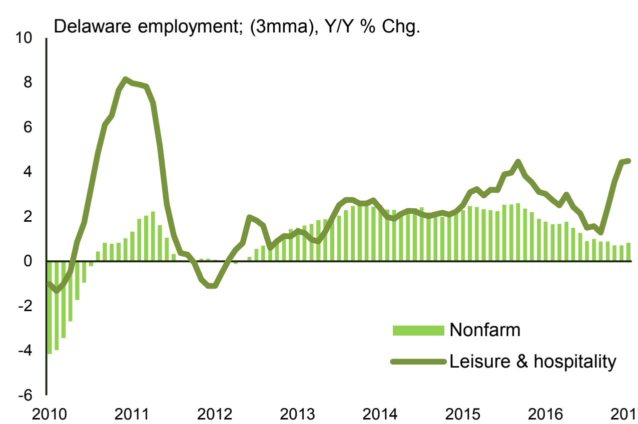
Indeed, many of the recent layoffs were related to reorganizational efforts by Dupont and AstraZenca. While these developments have acted as a headwind, a strengthening American economy has provided – and will continue to provide – offsetting support. Steady job and income gains

**CHART 7: MANUFACTURING SECTOR SHEDDING JOBS ON WEAK FUNDAMENTALS**




Source: Bureau of Labor Statistics, TD Economics

**CHART 8: TOURISM RELATED SECTORS HIRING AT FASTEST PACE IN MORE THAN FIVE YEARS**




Source: Bureau of Labor Statistics, TD Economics nationally continue to boost credit demand and discretionary spending, with positive feed-through effects to the Delaware's credit card and overall financial services industries. Moreover, Americans from neighboring states will have more money to spend on things like weekend getaways to Rehoboth beach or to Wilmington's waterfront. Hotels, restaurants, and entertainment venues are adding jobs at a red hot pace as a result. Payrolls in the leisure and hospitality industry rose by 5.1% y/y in January, the fastest pace of hiring in over 5 years (Chart 8). The state's once struggling casinos are also making a comeback. Delaware's Dover Downs recently reported its second consecutive year in the black following two years of losses. This is an encouraging development in the context of increasing competition from the online gaming industry and from nearby states.

Retirees with a preference for a milder climate are also flocking to the state. The state's over-60 population rose by 40% in the decade through 2015 nearly double that of the nation. This is helping the healthcare sector charge ahead, with payrolls up by 3.4% y/y. A repeal of the ACA would also have a relatively subdued impact on the state, with only a 5% increase in the number of uninsured individuals expected as a share of total population – the third smallest jump among the states. All told, we expect these factors will continue to support respectable growth in the Delaware economy of 1.9% this year and 2.2% in 2018

### D.C.-Md.-Va.: Sequestration 2.0? We think not

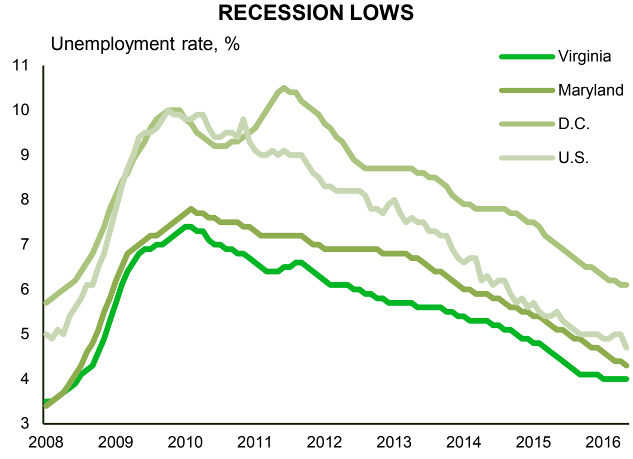
While budget sequestration in 2013 pulled the economies surrounding the national capital into recession, economic growth has recovered and is now less reliant on government spending. Indeed, after coming in slightly below the U.S. average in 2016, we expect economic growth will accelerate to a pace roughly in line with the national average in both 2017 and 2018. Just as the economy is showing signs of revving up, uncertain prospects regarding federal spending post-election have muddied the outlook. Nonetheless, we believe a similar economic downturn to the one that was seen in the aftermath of sequestration is unlikely given the potential policies of the new administration.

Furthermore, regardless of how the federal budget landscape unfolds, the DMV economy has managed to diversify away from public sector activities. The DMV economy is now seen as a hub for cybersecurity. This has attracted a number of new employers and investment, both of which should continue to help spur on growth. Professional and technical services, which encompasses these cyber workers, continues to outperform in both Maryland and Virginia, with payrolls growing by relatively healthy 1.8% y/y and 1.6% y/y, respectively, after years of contraction. Amazon also wants a piece of the pie and has recently teamed up with the Virginia Cyber Range to expand the reach of cybersecurity education. While this is largely a pro-bono effort, the tech-giant could be planting the seed for future investment in the region. The scope for more fulfillment centers is also probable, with the DMV region located within a 10-hour drive from over half of the nation's population.

These well-paying cyber and tech jobs are resulting in healthy wage gains in the range of 3.5-4.5% across the region. The unemployment rate is also hovering around post-recession lows (Chart 9), manifesting in further wage pressures. As a result, increased spending in both the discretionary and non-discretionary categories is likely. Indeed, demand for housing is rising, while D.C. home prices up by a robust 5.3% y/y in January. Both Maryland (4.3%) and Virginia (3.1%) are trailing closely behind. Rising wages have also been a boon for the leisure and hospitality sector, not only in the D.C. area, but also for neighboring states, such as Delaware, as we have highlighted in the previous section.

With all these factors supporting our outlook for the region, the risk that governmental spending cuts to discretionary non-defense spending materially impact economic growth remains limited. Furthermore, the risk is not one sided. Reductions in discretionary spending levels and governmental hiring freezes would be likely offset by increased defense spending. Any increase in defense spending would provide the region with an outsized benefit, given the Pentagon and NSA are both headquartered in the DMV region. As such, we believe the likelihood of dramatic overall net spending cuts on par with those suffered at the onset of sequestration does not appear likely.

**CHART 9: JOBLESS RATES AT POST-RECESSION LOWS**




Source: Bureau of Labor Statistics, TD Economics

## LOWER SOUTH ATLANTIC (FL, GA, SC)

### Florida: Outlook remains bright, but forecast isn't without risks

The Sunshine state continues to expand at a strong clip. For four years economic growth has outpaced that of the nation, and we expect this trend to continue. Indeed, the rate of economic expansion is projected to come in nearly a percentage point ahead of the U.S. average this year at 3.1% y/y with growth holding near this level in 2018. The story holds true when it comes to the labor market, with employment gains in Florida expected to outpace the national this year and next. Despite some deceleration in the pace of hiring as the economic recovery matures, job growth will remain very healthy and continue to broaden across sectors.

One of the more encouraging aspects of this story is that the strength appears to be broad-based – a theme we've foreshadowed in previous forecast publications. Indeed, the core-housing and tourism-related sectors are hiring at a robust pace, but so are other higher skilled services sectors, including healthcare and finance.

This broad-based strength has helped pull in over 250,000 people back into the workforce over the past year. Most recently, labor force growth accelerated to 2.6% y/y. This is the fastest pace in nearly a decade and more than triple the national pace. Despite the outsized number of Floridians that have entered the labor force over the past year, the jobless rate has remained steady near 5%. As labor force slack diminishes, prospects for continued employment gains should see the jobless rate fall towards the mid-4% mark.

Tighter labor market conditions will continue to manifest in solid wage gains. Average hourly earnings are up

CHART 10: WAGE GROWTH AT POST-RECESSION HIGH ON THE BACK OF TIGHT LABOR MARKET

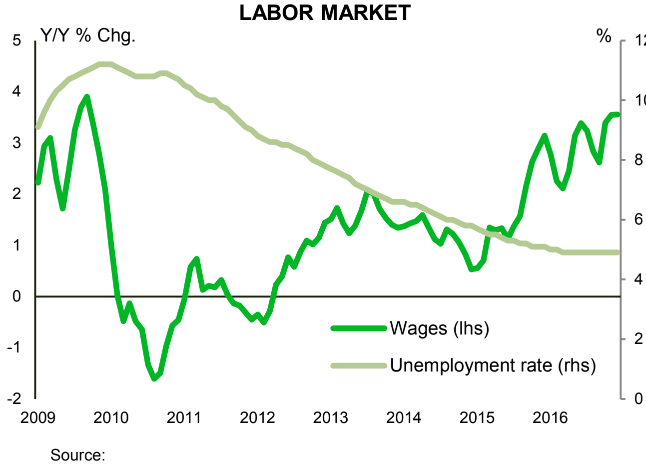
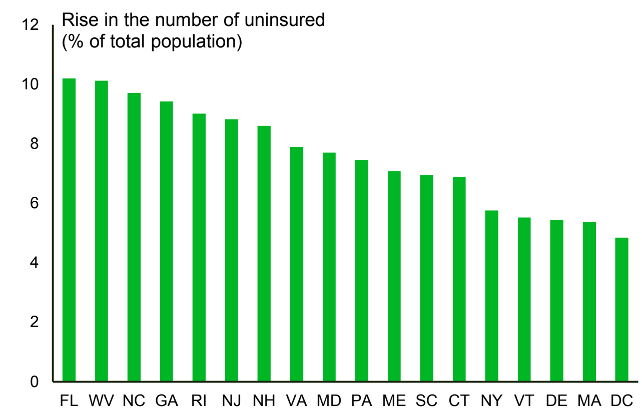



CHART 11: IMPACT WOULD BE FELT MOST BY FLORIDA IF THE ACA IS REPEALED




Source: Centre on Budget and Policy Priorities, Moody's, TD Economics

3.6% y/y last quarter, their fastest pace since 2009 (Chart 10). These strong wage and job gains have led to increased spending and have supported demand for housing. Home price growth in Florida has accelerated to around 7.5% y/y. The improved sentiment is motivating home-builders to ramp up construction. Permitting activity continues to grind higher, at just above 120,000 units annualized, and should continue with homebuilders likely to break ground on more than 140,000 properties next year. The increase in supply should lead price growth to decelerate, and help prevent affordability metrics from deteriorating too much despite rising interest rates.

For now, the construction sector's payrolls are growing faster than any other in the state at 7.9% y/y. The real estate and finance sectors are similarly receiving a boost, as housing market activity continues to improve. And both of these sectors should be further lifted as baby boomers enter retirement age, often relocating to the Sunshine State.

While the outlook for Florida looks to be bright, the forecast in not without risks. The uncertainty around the Affordable Care Act (ACA) poses a downside risk for the healthcare sector. Of the states in TD's Footprint, Florida stands to see the largest increase in uninsured individuals should the ACA be repealed (Chart 11). This could result in a sizable reduction in demand for healthcare services over the coming years. Fortunately, the sector should benefit from the rising number of retirees that are flocking to the state.

Moreover, the state also remains at risk from potential changes to U.S. trade policy. In particular, thawing trade relations with Cuba, which benefited the South Florida economy whereby companies could sell "tools, equipment, and supplies for use by private-sector entrepreneurs" in Cuba, may stall or be rolled back. And while the state is less dependent on goods exports than many others, it depends on international tourism more than others, with any thickening of the border posing a downside risk to the forecast.

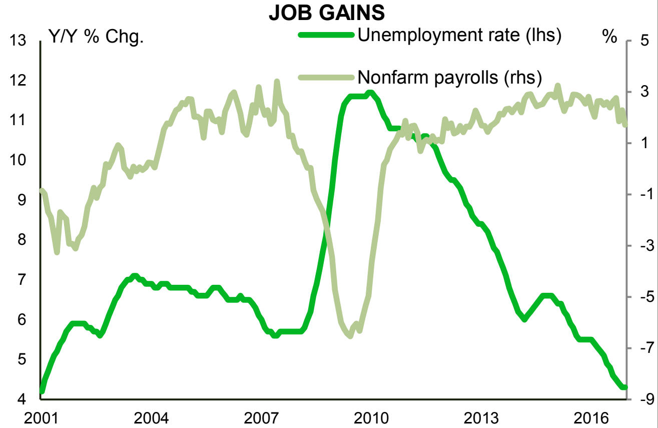
**South Carolina: Future of trade policy poses uncertainty for outlook**

Following last year's solid economic performance, whereby the Palmetto State outpaced the nation by nearly one percentage point, the state economy is set to moderate to a low-2% clip in 2017 and 2018 – in line with our national-average projection. Similarly, employment growth has slowed and is also projected to ratchet down from the very robust 2.4% y/y average monthly gain recorded in 2016 to a still healthy yet sub-2% pace over the coming quarters, with payroll gains likely to decelerate to 1.6% in 2018 – still outstripping the nation.

This level of hiring should be sufficient enough to eat up the remaining slack in the labor market. At 4.4%, the unemployment rate is already near its lowest level since early-2001 (Chart 12) despite the labor market growing by a record-setting 49 thousand during 2016. As slack diminishes, labor force growth should slow and enable the still robust job gains to push the unemployment rate closer to 4% by the end of our forecast horizon (Chart 13).

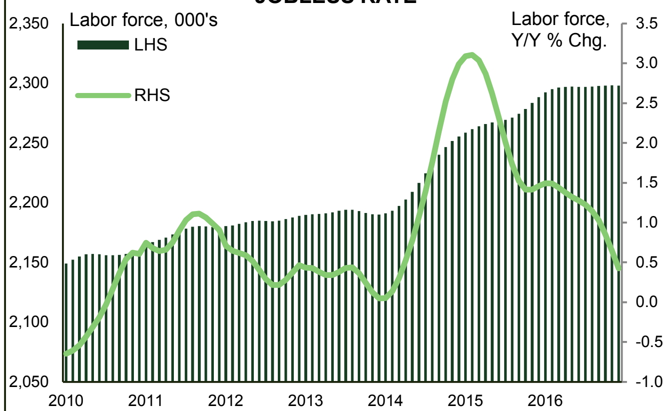
Tighter labor market conditions have manifested in rising wage pressures. Wages are growing by around 4% y/y, supporting consumer spending and the state housing market. Home prices have now recouped all of the losses that were incurred during the Great Recession and price growth is expected to remain robust as demand for housing strengthens. This is particularly true for certain cities like Myrtle Beach and Charleston, where a wave of baby boomers increasingly choose to retire in these beautiful coastal locations.

**CHART 12: JOBLESS RATE FALLS LOWER AMID SLOWER LABOR FORCE GROWTH & STEADY JOB GAINS**




Source: Bureau of Labor Statistics, TD Economics

**CHART 13: LABOR FORCE GROWTH SLOWS PLACING DOWNWARD PRESSURE ON THE JOBLESS RATE**




Source: Bureau of Labor Statistics, TD Economics

Despite these positive aspects of the outlook, most of which are tied to domestic fundamentals, South Carolina's export-oriented industries may continue to face some near-term challenges, including further strength in the dollar. In fact, the recent moderation in growth and employment has been largely concentrated in externally-exposed sectors of the economy, such as manufacturing and transport. The Palmetto State economy is the fourth most export-exposed nationally with access to global markets of utmost importance for the state economy. This is particularly true for the state's transportation manufacturers which have been expanding and now employ one in five manufacturing workers and account for nearly as large a share of merchandise exports.

Still, despite these near-term challenges, the state remains a favorable destination for manufacturing investment. While outlays may not come in to the same extent as they have over the past few years, hence the slowing in our economic growth and employment growth forecasts, they will still remain strong. Clustering effects, relatively low corporate tax rates and manufacturing wages and good access to transport infrastructure should continue to attract manufacturers to the state. Manufacturers will also benefit from a $2.2 billion deepening at the Port of Charleston over the next decade, which will enable it to handle larger Post-Panamax ships.

Nonetheless, the new administration's trade protectionist policies pose some risk to the outlook, and may delay business investment as firms wait for the policy landscape to crystalize. As such, the economic outlook should remain supported by rising consumer demand. Wage gains, both in S.C. and nationally should support the state's tourism related sectors, which are mostly dependent on domestic tourism.

| 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** | **1.3** | **4.9** | **4.6** | **4.4** | **1,176** | **1,270** | **1,351** | **5.5** | **5.4** | **3.7** | **0.8** | **0.8** | **0.8** |
| **New England** | **1.3** | **1.6** | **1.7** | **1.3** | **1.5** | **1.3** | **4.0** | **3.6** | **3.6** | **33** | **35** | **41** | **3.3** | **4.1** | **3.3** | **0.2** | **0.2** | **0.2** |
| Connecticut | 0.2 | 0.8 | 1.2 | 0.3 | 0.9 | 0.8 | 5.1 | 4.6 | 4.6 | 5.6 | 5.5 | 5.6 | -0.3 | 1.0 | 2.6 | -0.2 | -0.2 | -0.1 |
| Massachusetts | 1.6 | 2.1 | 2.1 | 1.8 | 1.8 | 1.7 | 3.7 | 3.3 | 3.3 | 16 | 17 | 23 | 4.6 | 4.9 | 3.4 | 0.4 | 0.3 | 0.3 |
| Maine | 1.9 | 1.0 | 0.9 | 1.1 | 1.4 | 1.0 | 3.9 | 3.5 | 3.3 | 4.4 | 4.4 | 4.5 | 3.1 | 3.0 | 2.9 | 0.2 | 0.3 | 0.4 |
| New Hampshire | 2.9 | 2.2 | 2.1 | 1.9 | 2.2 | 1.9 | 2.8 | 2.6 | 2.5 | 3.7 | 4.4 | 4.2 | 4.2 | 5.8 | 4.5 | 0.4 | 0.3 | 0.3 |
| Rhode Island | 0.5 | 1.0 | 0.9 | 1.1 | 0.8 | 0.5 | 5.3 | 5.0 | 4.8 | 1.2 | 1.5 | 1.5 | 5.3 | 4.7 | 3.6 | 0.1 | 0.1 | 0.2 |
| Vermont | 1.8 | 0.9 | 1.0 | 0.4 | 1.1 | 0.9 | 3.3 | 3.2 | 3.2 | 2.0 | 1.8 | 1.7 | 0.7 | 3.8 | 3.1 | -0.2 | -0.0 | 0.1 |
| **Middle Atlantic** | **1.3** | **1.8** | **1.6** | **1.3** | **1.6** | **1.1** | **5.1** | **4.7** | **4.6** | **83** | **97** | **99** | **2.1** | **4.5** | **4.0** | **-0.0** | **0.0** | **0.0** |
| New Jersey | 1.7 | 1.5 | 1.4 | 1.5 | 1.7 | 1.0 | 5.0 | 4.6 | 4.7 | 26 | 30 | 31 | 1.2 | 3.5 | 2.4 | 0.1 | 0.1 | 0.1 |
| New York | 1.6 | 1.8 | 1.6 | 1.5 | 1.8 | 1.3 | 4.9 | 4.6 | 4.5 | 35 | 44 | 42 | 2.4 | 5.4 | 4.9 | -0.0 | -0.0 | 0.0 |
| Pennsylvania | 0.2 | 1.8 | 1.7 | 0.9 | 1.3 | 0.9 | 5.5 | 4.9 | 4.8 | 22 | 24 | 25 | 2.1 | 3.3 | 3.3 | -0.1 | -0.0 | -0.0 |
| **Upper South Atlantic** | **1.3** | **2.0** | **2.4** | **1.6** | **1.4** | **1.5** | **4.7** | **4.7** | **4.5** | **117** | **132** | **141** | **2.8** | **4.2** | **4.1** | **0.7** | **0.8** | **0.8** |
| District of Columbia | 2.1 | 1.9 | 2.0 | 1.7 | 1.1 | 0.8 | 6.0 | 5.6 | 5.4 | 3.9 | 4.8 | 4.6 | 3.0 | 6.0 | 5.9 | 1.6 | 1.3 | 1.0 |
| Delaware | 1.4 | 1.9 | 2.2 | 1.1 | 1.3 | 1.4 | 4.4 | 4.4 | 4.4 | 5.8 | 6.2 | 6.8 | 1.4 | 2.8 | 2.7 | 0.8 | 0.8 | 0.8 |
| Maryland | 0.5 | 2.2 | 2.5 | 1.4 | 1.7 | 1.4 | 4.3 | 4.2 | 4.1 | 17 | 17 | 18 | 1.7 | 5.2 | 4.6 | 0.4 | 0.4 | 0.4 |
| North Carolina | 2.4 | 2.0 | 2.5 | 2.4 | 1.4 | 1.8 | 5.1 | 5.3 | 5.1 | 57 | 66 | 71 | 4.6 | 5.0 | 4.4 | 1.1 | 1.1 | 1.1 |
| Virginia | 1.1 | 2.0 | 2.5 | 1.5 | 1.5 | 1.7 | 4.1 | 3.9 | 3.7 | 30 | 35 | 37 | 2.0 | 3.2 | 3.5 | 0.5 | 0.8 | 0.9 |
| West Virginia | -2.2 | 1.3 | 1.1 | -1.1 | 0.2 | 0.7 | 6.0 | 5.4 | 5.1 | 2.7 | 3.5 | 3.5 | 3.9 | 1.7 | 2.4 | -0.5 | -0.6 | -0.6 |
| **Lower South Atlantic** | **3.0** | **2.7** | **2.6** | **3.1** | **2.6** | **2.1** | **5.1** | **5.0** | **4.8** | **196** | **242** | **259** | **7.0** | **6.1** | **4.4** | **1.5** | **1.6** | **1.6** |
| Florida | 2.7 | 3.1 | 3.0 | 3.5 | 3.0 | 2.3 | 4.9 | 4.9 | 4.7 | 112 | 135 | 145 | 7.5 | 6.1 | 4.1 | 1.8 | 1.9 | 1.9 |
| Georgia | 3.7 | 2.1 | 1.8 | 2.8 | 2.2 | 2.0 | 5.4 | 5.5 | 5.4 | 52 | 69 | 73 | 6.1 | 6.1 | 5.3 | 1.1 | 1.2 | 1.2 |
| South Carolina | 2.7 | 2.2 | 2.4 | 2.4 | 1.7 | 1.6 | 4.9 | 4.4 | 4.2 | 32 | 38 | 41 | 5.2 | 5.8 | 5.0 | 1.4 | 1.2 | 1.2 |

Source: BEA, BLS, Census Bureau, CoreLogic, TD Economics. Forecasts by TD Economics as of March 2017. Note that all are forecast values.