State Economic Forecast

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National Highlights

• The COVID-19 pandemic will weigh heavily on the U.S. economy, lowering its running pace to just 1% this year. There is a lot of uncertainty to this outlook, but our baseline assumption is that near-term weakness will be followed by a rebound in the second half of the year as life returns to normal. In the meantime, government aid to businesses and consumers and lower interest rates should alleviate some of the pain. These broad themes will be echoed across the East Coast. For more details on the national forecast please see our Quarterly Economic Forecast.

New England

• New England’s growth rate is likely to fall to just 1% this year. The region's labor market, which has enjoyed some of the lowest unemployment rates in the nation until recently, will come under significant pressure due to COVID-19. Consumer-driven industries are an important economic mainstay, especially in smaller states. Massachusetts and New Hampshire should lead the region at just above 1% this year, with the remaining states falling below this threshold. Growth in the region should resume a more trend-like pace of just under 2% next year.

Middle Atlantic

• Economic growth in the Mid-Atlantic region is forecasted to decelerate to a modest 0.5% this year. The pandemic has hit New York state hard, and its famous namesake city even harder. Assuming a rebound takes shape later this year, the Empire State should still eke out modest growth. The New Jersey economy, with its large commuter population, will be similarly hard-hit. Pennsylvania, meanwhile, will have to contend with the added burden of a low energy prices. Next year, the region’s growth rate should improve to 1.5%, with all three states clustered around this mark.

Upper South Atlantic

• The outlook for states in the Upper South Atlantic is mixed. Delaware’s economy was slowing prior to the pandemic, and a large proportion of its workforce is employed in vulnerable industries. In the national capital region (D.C., Maryland and Virginia) a large share of government and government-related enterprises should help soften the blow, though the hit to tourism will hit D.C hard. North Carolina appears in better shape to rebound quickly thanks to healthy business investment and a strong labor market. On net, growth is forecast at 1.3% in the region in 2020 and 2.0% in 2021.

Lower South Atlantic

• The economies of the Lower South Atlantic, while slowing, should continue to outperform the nation this year. Still, the near-term shock posed by the pandemic will be severe. Travel and tourism is a major industry in Florida. Already, theme parks, convention-hosting and cruise lines have taken big hits. South Carolina's outsized manufacturing sector, meanwhile, must contend with an intensification in supply-chain disruptions and plant closures in the months ahead.

Real GDP by State Forecast (2020)

New England (CT, MA, ME, NH, RI, VT)

Connecticut: Speedbump Ahead

Prior to the COVID-19 shock, economic growth in Connecticut was running at a moderate pace of slightly above 1%, leaving it a thin cushion to absorb the negative impact. Like much of the country, economic activity will take a hit in the near-term due to measures to contain the virus. However, below-average exposure on trade and limited exposure to international tourism are mitigating factors. All told, we expect the state economy to record little growth this year, with a modest 0.6% expansion, owing mostly to rebounding growth in the second half of the year as the pressures from COVID-19 dissipate. The economy should advance at a moderate clip of 1.3% in 2021, with manufacturing and a few service-based industries providing buoyancy.

Social distancing measures, which include the closures of malls, gyms, movie theatres and limited service at bars and restaurants, are weighing heavily on consumer-driven businesses. Worker layoffs have followed swiftly, with claims for unemployment insurance surging in the third week of March. The increase in the jobless rate, which we expect to peak midyear, will weigh on the housing market. Coupled with increased uncertainty and poor stock market performance, home sales will slow down in the near-term, while the recent positive momentum in prices and starts will hit a speedbump.

The potential for factory closures is a near-term risk, but the manufacturing sector will remain an important growth contributor over the medium term, thanks in part to its military tilt. Production pipelines among defense-related submarine and aerospace manufacturers remain healthy, with this group continuing to win large long-horizon contracts. However, close ties to Boeing through numerous suppliers, could still result in some near-term pressure for the aerospace industry.

Among the remaining service sectors, gains in professional and business services and healthcare have been instrumental in helping payroll growth accelerate in recent months (Chart 1). The healthcare sector, the only one where jobs have continued to grow unabated over the past several years, is expected to remain a steady growth driver. An aging population remains an important tailwind, but fiscal changes should also offer some support. The tax spat between the state and hospitals is on the cusp of being resolved, and improved fiscal room through increased state payments and a decline in taxes, should allow hospitals to hire and invest more. Hartford Healthcare’s expansion, which will bring 300 new jobs to the city, marks another positive development in the space. Connecticut’s highly educated workforce also bodes well for growth in higher value-added chains of medicine, such as biotech, and tech more broadly. Positive developments include expansions at American Systems (IT & Engineering) and HCL Technologies, while Winstanley Enterprises plans to bring new lab space to New Haven.

Massachusetts: Near-term Weakness

The Massachusetts economy stood on solid footing heading into 2020, with decent employment growth, the unemployment rate near historic lows, and businesses upbeat about the future. This is changing quickly with the COVID-19 outbreak. Social distancing and reduced travel are hurting the hospitality sector, with several conventions that tend to bring thousands of visitors to Boston cancelled. Meanwhile, related businesses, such as bars, restaurants and select retailers also feel the sting. The economic hit from the outbreak will be multifaceted, with supply chain disruptions adding to the near-term pressure. What’s more, the negative wealth effect from recent equity market turbulence will also weigh on consumer confidence, likely reducing purchases of big-ticket items. Still, assuming that the virus’ spread is indeed contained over the next few months, a rebound will follow in the second half of the year. The near-term rise in the unemployment rate and steep slowdown in home price growth should also prove transient.

Despite these challenges, the Bay State still has a few qualities which should help it weather the storm. For in-
stance, employment disruptions are expected to be limited in tech and healthcare, two key sectors driving job growth (Chart 2). The heavy lean on tech workers, who tend to be more adept at working remotely, implies a dampened labor supply and productivity impact. What’s more, once the worst is over, large tech firms should resume their strategic investment and hiring plans. Google, Amazon and Verizon, all have major expansion plans in the works in the Boston area.

Massachusetts has a robust healthcare system, characterized by top-notch hospitals and research institutions. An all-hands-on-deck approach to combat the outbreak is likely to support stronger hiring in the sector. The higher value-added branches of life sciences, pharma and biotech, should also see some benefit. The abundance of talent remains a strong gravitational pull for employers in both the life science and tech space. It is worth noting, however, that this comparative advantage will be increasingly challenged given a declining inflow of international migrants. Reduced immigration was a major factor in slowing population growth to a meagre 0.1% last year.

All told, 2020 will be a slow year, with the front-loaded weakness likely to curtail the economy’s running pace to just above 1%. With COVID-19’s impact further in the rearview mirror, growth should improve to 2.1% in 2021.

Maine, New Hampshire & Vermont: Jobless Rates Set to Rise

At the start of this year, the unemployment rates of Maine, New Hampshire and Vermont were among the lowest in the country, at 3.1%, 2.6% and 2.4% respectively. Indeed, up until the COVID-19 outbreak, a shortage of workers was the main challenge for the region. That narrative, however, is shifting quickly.

Retail trade and the leisure and hospitality sectors are particularly vulnerable to social distancing measures and these states are heavily exposed (Chart 3). With travel restrictions weighing on international visits and local consumers hunkering down, the impact is proving swift. Restriction on dining out are weighing heavily on the food service industry. Meanwhile, the ski and hospitality business are taking it to the chin during the important spring break period, with massive closures throughout the area.

The housing market will also face some near-term discomfort. With would-be homebuyers more likely to stay put, sales activity will suffer. Meanwhile, home price growth, which is above the U.S. average in all three states, particularly so in Maine (8% y/y), will slow.

Efforts to contain the spread of the disease may also dent manufacturing production in the region. Sock maker, Darn Tough Vermont, which employs 350 workers, is temporarily shutting down, and others could follow suit. Meanwhile, a slower growth environment could weigh on key export products, such as lobster and aerospace products, with Boeing’s woes and those of airlines in general posing additional risk.

State and federal aid will limit some of the downside. In the meantime, the outbreak will put upward pressure on unemployment rates. Assuming that the spread of the virus is contained over the next several months, a rebound in economic activity will take place in the second half of the year. Looking through the ‘downs and ups’ over the next two years, the New Hampshire economy, which has a high-tech tilt, a low-tax environment and the fastest population growth in New England, is expected to maintain its edge on its two neighbors. Growth in the Granite State is forecast to average 1.5% over 2020-21, with Vermont and Maine trailing behind at roughly 1%.
Middle Atlantic (NJ, NY, PA)

New York: The Show Is not Going on

New York is likely to suffer a more severe impact from the spread of COVID-19, as the densely-populated global hub of New York City (NYC) is heavily hit by reduced travel and closures. The region is also coping with the direct fallout from the virus, with the highest number of cases of any state at the time of writing. Schools are closed for at least two weeks and more firms are directing employees to work from home. Meanwhile, the National Guard has set up a containment area in heavily-impacted New Rochelle.

The NYC area is one of the most impacted regions, as tourism and related sectors were the first to feel the pinch and now most cultural and entertainment institutions in the city are shut down. Most symbolically, Broadway is closed for at least a month. An early ban on visits from China weighed on activity, with China making up the second largest source of visits to NYC. But, wider travel restrictions and social distancing that will slow the flow of other tourists, will also weigh on the city.

The Empire State is also heavily exposed through NYC’s large financial sector. Recent market losses are likely to curtail business confidence, and weigh on investment and hiring plans. A lower-for-longer interest rate environment, will add to the pressures for lenders and insurers. The impact of the outbreak is also likely add to the struggles for the NYC housing market. The latter was already contending with a shrinking population, past tax changes and overbuilding in the condo space, with Manhattan prices falling as a result (Chart 4).

Providing some solace in a tough environment, media, IT and biotech have more positive narratives. Election years tend to be a boon for media firms, which can be found in high concentration in NYC. In addition, the Big Apple remains a new-economy talent hub, which should help guard against potential downsides from the near-term hit to business sentiment. Tech giants such as Google, Facebook, Amazon and Apple, are still poised to follow through with their strategic plans and expand their presence in NYC. Other long-horizon projects, such as expansions at JFK and LaGuardia, are also slated to offer support.

All in all, the pace of expansion will slow this year. But the New York economy should still manage to eke out some modest growth of 0.3% as a rebound takes place in the second half of the year, with a trend-like pace of 1.5% likely to return in 2021.

New Jersey: Tough Times in the Near-term

The Garden State is headed for some tough times as the spread of COVID-19 takes a heavy toll on economic activity. Aggressive social-distancing measures are being taken to slow the spread of the virus. Consumer-driven industries will bear the brunt of these measures. The state government has ordered the closure of gyms, movie theatres and malls. Like elsewhere, restaurants have been restricted to take out and delivery service, and Atlantic City’s casinos are shut down indefinitely.

New Jersey’s large commuter population will also be affected by the hit to NYC’s economy. Elevated uncertainty and stock market declines will also weigh on housing. Homes sales are expected to suffer in the near-term as a result, while price growth is likely to see a halt to its recent acceleration (Chart 5).

New Jersey small businesses may tend to lean more heavily on layoffs given the added pressure of a large 10% increase in the state’s minimum wage recently. The impact on the labor market has proven swift, with a massive surge in workers applying for unemployment insurance already evident.

Above-average exposure to imports may lead to more pronounced supply chain disruptions, posing risk for the logistics sector. But, on the other hand, social distancing lends support to business-to-consumer delivery services.

New Jersey’s higher value-added biopharma sector should also find some support, with some companies directly involved in the fight against COVID-19.

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With the expectation that the virus’ spread will be contained in a few months, a rebound in economic activity is likely to follow. In the meantime, federal aid, which aims to put cash in consumers hands, along with state support, may help dampen the economic hit. Nonetheless, New Jersey’s precarious fiscal situation implies a more limited response at the state level, particularly if the health crisis proves lengthy. All factors considered, growth for 2020 as a whole will be soft, with the economy expected to advance by only 0.6% this year. With the COVID-19 disruption in the rearview mirror next year, growth should trend higher at an improved 1.4%.

Pennsylvania: Weathering the Storm

Economic growth in Pennsylvania is projected to advance at a modest 0.9% this year. This outlook factors in near-term weakness due to the impact of the COVID-19 outbreak, which is expected to slow growth and push the state’s unemployment rate higher in the near-term.

The pandemic will lead to supply chain disruptions and is likely to temporarily halt the recovery in manufacturing. Prior to the virus’s spread, Pennsylvania’s manufacturing sector appeared to be turning the corner. Several recent job openings, such as at Seakeeper (boating, 100 jobs), Ameri-Precision Metals (steel plant, 100 jobs), Seokoh (cosmetics, 280 jobs) were adding to the positive narrative. The Philly Fed Manufacturing index also rose to the highest level in three years in February, but it swiftly plunged this month.

Unfortunately, the recent drop-off in energy prices is also putting pressure on Pennsylvania’s energy sector, which was already contending with a supply glut and low-price environment. Investment in the sector is pulling back and payrolls are starting to head lower. Still the outlook isn’t all dim. Marcellus Shale producers could capture a larger share of the natural gas market as oil-linked production in Texas declines. The potential for China to remove LNG tariffs could also lend a helping hand. In addition, a few long-horizon energy projects should provide support to economic activity. For instance, expansion work continues at the Marcus Hook Industrial Complex, while the Shell ethane cracker plant is nearing completion. The dredging of the Delaware river is also nearing completion, which will be a boon for the PhilaPort and the broader logistics sector where expansions continue to take place. UPS’s plan to invest $1.4 billion and hire 1,700 workers to expand its network, marks another recent positive development on that front.

As the goods sector goes through volatility, the larger services sector should continue to offer some stability beyond the near-term. Besides healthcare, which remains an important jobs contributor and is poised to expand on the back of an aging population and recent investments, office jobs have also been a major point of strength recently. Thanks in large part to gains in professional and technical services (up 2.4% year-on-year; Chart 6), office-using employment has accounted for the bulk of the states’s job gains in recent months. Once the economy gets through the COVID-19 storm, the positive trend should resume, particularly, in the larger metro areas of Philadelphia and Pittsburgh. The tech scene in the latter continues to sizzle, with companies both large (i.e. Facebook, Google) and small (i.e. Gecko Robotics, 120 new jobs) poised to continue expanding operations.
Upper South Atlantic (DC, DE, MD, NC, VA, WV)

Delaware: Growth at a Standstill

Just as economic activity was showing signs of looking up in the First State, it appears once again to have hit the pause button. Delaware has not seen positive annual economic growth since 2015, and barring a sizable year-end rebound, 2019 is now at risk of being another subpar year (Chart 7). This year is shaping up to be another difficult one as the state grapples with heightened uncertainty amidst the COVID-19 pandemic.

As the number of confirmed cases rises across the state, authorities have moved to implement containment measures. Gatherings over 50 people have been banned, while restaurants and bars have been limited to take-outs and deliveries, and casinos shut down. The economic toll of the pandemic and efforts to contain it could be substantial for Delaware. Nearly 23% of its workforce makes a living in more vulnerable sectors (i.e. retail, arts, entertainment and recreation, and accommodation and food services), and are more at risk of experiencing reduced working hours and job losses.

Already, signs of softness have taken hold in the First State’s labor market. The number of unemployed people in the state rose through 2019, pushing the unemployment rate up from 3.5% in the first quarter to 4.0% in the final one. On an annual basis, the 3.8% outturn for 2019 was unchanged relative to the previous year and is the lowest Delaware’s unemployment rate has been in the post-financial crisis era. Domestic in-migration flows remain a bright spot, and the population is growing at nearly double the rate of the U.S. at 0.9%.

D.C.-Maryland-Virginia: Labor Markets Staying Healthy

Labor markets in the national capital region continued to improve though the end of 2019, and started the year on solid footing. A solid spurt in job growth kept the unemployment rate on a downward trajectory. Household employment has been especially strong, eclipsing the national pace in the second half of 2019 after a period of weaker growth (Chart 8).

The fall-out from intensifying containment efforts and reduced travel activity will weigh on D.C.’s prominent travel and tourism industry this year. Not only is the District one of the more popular tourist destinations in the U.S., it also hosts over 1,000 conventions, meetings and trade shows every year. Already, five of this year’s largest conventions, with an estimated combined economic impact of $35 million, have been called off. These events were expected to draw over 47,000 attendees and result in nearly 32,000 hotel room nights. In 2018, total visitor spending in the capital city represented a sizable 5.5% of GDP. With key attractions like the Smithsonian Museums now closed, tourism revenues will take a major hit.

One glimmer of good news is that government and government-related enterprises account for one fifth of economic output in the national capital region. As such, there is scope for a more muted COVID-19-induced slowdown in near-term economic activity. Combined with favorable employment and business investment trends, this should bring the pace of growth to 1.0% in D.C. and Maryland, and 1.7% in Virginia this year.

Beyond the pandemic, medium term prospects still appear bright. Amazon has recently ramped up hiring at its HQ2 and is on track to meet its 1,600 hires target by the end 2020. Other notable developments include the announcement by commercial real estate analytics firm CoStar Group of a plan to build a 400,000-square-foot facility in Richmond, Virginia. The new building would eventually become home to 2,000 new local jobs over the next five years.
At 2.5%, 2.3%, and 3.5%, respectively, home price growth in D.C., Maryland and Virginia continued to trend at or below the national pace last year. D.C., in particular, continues to face severe affordability issues that have dampened home price growth. A number of affordable housing projects announced recently should provide some relief on that front, including the construction of a 63-unit project on the eastern edge and a 38-unit project in Northwest D.C.

North Carolina: Business Investment Firms up, but Wage Growth Disappoints

The Tar Heel state’s economy has remained on solid ground as it continues to benefit from healthy business investment and a strong labor market. The COVID-19 pandemic, however, is already showing signs of taking an increasing toll on its economy. Amusement park Carowind announced it is postponing its season opening. The company had planned on hiring 4,000 people this year as it unveils new attractions. Across the state, bars and restaurants are limited to take-outs and deliveries. The accommodation and food services, and arts, entertainment and recreation industries employ a combined 11% of the state’s labor base.

As it hopes to rebound quickly from these difficult times, the Tar Heel state can count on favorable labor market trends. Non-farm employment advanced 1.9% last year, considerably above the 1.4% pace recorded at the national level. Strong job growth has been accompanied by more people entering the labor force, where growth has accelerated from 1.0% in 2018 to 1.8% in 2019, twice the U.S. rate. At the same time, the unemployment rate reached its lowest level since 2000 at just 3.6% in the fourth quarter.

Wage growth, however, averaged a paltry 1.7% in 2019. This compares to 3.3% nationally and leaves North Carolina trailing other southeastern states. Last year’s subpar performance also marked a divergence from previous years when North Carolina was a consistent above-average performer (Chart 9). At the lower end of the wage spectrum, initiatives to increase the minimum wage at several financial institutions should support wage growth over the coming year. Among these, Charlotte-based Bank of America raised its minimum wage to $17 per hour in 2019 and is expected to raise it further to $20 by 2021. Likewise, Wells Fargo will increase its minimum wage to $16 per hour this year for Charlotte-based employees.

Additionally, Amazon is hiring 2,000 people for its fulfillment centers in North Carolina, and is also increasing its minimum wage to $17 from $15 per hour through April.

The continued influx of high-paying jobs in the state’s vibrant tech and life science industries should also help wage growth. Drug company Eli Lilly and Company announced a $474 million investment in the Research Triangle Park with more than 450 new highly-skilled positions. Microsoft announced a $47.5 million investment in Morrisville that should result in 500 new positions with a minimum average salary of over $125,000.

Overall, despite the near-term challenge presented by the pandemic, a solid rebound in the second half of the year should allow North Carolina to grow by 1.6% this year and 2.1% in 2021.

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South Carolina: From one Threat to the Next

By all accounts, the Palmetto State’s economy had a brilliant 2019. The labor market, in particular, had a remarkable year, with the unemployment rate falling a full percentage point from 3.4% in the first quarter to a record low 2.4% in the final quarter (Chart 10). In conjunction, labor force growth accelerated from 1.2% in 2018 to 1.5% in 2019, a function of improving participation in the workforce. Still, there is room for progress. At 58.3% of working adults, the labor force participation rate considerably lags the 63.1% national rate.

Trade tensions and related uncertainty have been the main constraints on South Carolina’s manufacturing and export-driven economy over the past two years. Even with these challenges, good exports totaled a record $41.5 billion last year, a near-20% increase compared to a year earlier. With trade risks abating significantly following the signing of a Phase One trade deal between the U.S. and China earlier this year, South Carolina’s economy is poised to improve further on its progress. As part of the agreement, China, the state’s most important trade partner (Chart 11), committed to increase its purchases of U.S. goods and services by $200 billion over the next two years.

Unfortunately, just as the trade threat dissipated, the COVID-19 shock hit. While so far, the data have yet to show much impact of the virus and reports of supply-chain disruptions from the state’s largest companies are few and far between, this will change in the months ahead.

It takes about a month for cargo to reach the U.S. East Coast from China, so the impact of China’s quarantines and factory shutdowns is likely to show up in the data this month and next.

Going forward, the deteriorating global demand backdrop will weigh on the state’s economic outlook. Sluggish global demand has already forced Boeing, one of the state’s largest employers, to reduce the monthly output of its 787 Dreamliner. This comes in addition to the company’s decision to halt production of its 737 MAX jet. Like a bad omen, these developments were announced before the wider spread of COVID-19. The plane manufacturer has since moved to suspend hiring and limit overtime in an effort to preserve cash. It is also seeking government assistance as it expects to face a liquidity crunch in the months ahead.

Likewise, South Carolina’s exports of passenger vehicles had their best year on record in 2019, but headwinds are similarly looming. Demand for new vehicles was already slowing in most of the world’s largest markets, but the coronavirus will weaken this even further. This is particularly true of China, where nearly 17% of the state’s passenger vehicle exports were bound in 2019. Germany is South Carolina’s biggest export market for passenger cars, and that country has recently gone into quarantine. We have downgraded our 2020 growth expectations for both countries in our Quarterly Economic Forecast.

All considered, only modest real GDP growth of 1.1% is expected for South Carolina in 2020, before rebounding to 2.5% in 2021.
Florida: Bracing for Impact

The Sunshine State moniker has been an accurate reflection of Florida’s recent economic performance. The labor market went on an impressive run toward the end of last year, with the unemployment rate falling to an all-time low of 2.9% in the fourth quarter, after edging lower all year. The state’s economy has been a consistent job generator. Even while the pace of growth at the national level decelerated to 1.4% last year (from 1.6%), nonfarm payrolls advanced at a robust 2.0% pace in Florida (Chart 12).

But, infectious clouds have been forming over Florida’s economy. Last year looks to have been a banner year for the state’s key travel and tourism industry, with 101 million visitors to the state through the first three quarters, up 3.7% year-on-year. This year, however, is shaping up to look very different, at least temporarily. With travel bans in place, tourism spending, which accounts for about 9% of the state’s economic output, is set to plummet (Chart 13). Hopefully, quarantine measures will stem the flow of new cases and activity will return to normal.

Already, several industries are experiencing substantial losses. Among the hardest-hit, Florida’s cruise ship industry has had multiple instances of early coronavirus outbreaks on its vessels. This had prompted U.S. officials to advise against taking cruises, ultimately bringing the $38 billion industry to a halt. Florida-based Carnival Corp., Royal Caribbean Cruises and Norwegian Cruise Line all announced a suspension of their U.S. operations.

The Sunshine State’s vibrant entertainment industry is also poised to take a hit as the outbreak causes more events to be cancelled. To date, some of South Florida’s signature concerts and music festivals have already been called off, including Miami’s Ultra and Calle Ocho festivals. The former, a gathering of 100,000 electronic music fans is estimated to have generated more than 1,800 jobs last year, with a direct economic impact of nearly $170 million.

In Central Florida, event cancellations will hit the region’s large convention-hosting industry hard. Over 150,000 convention attendees were expected in Orlando this year, with some of the city’s bigger events scheduled for early spring. That number is now falling rapidly. Earlier this month, the HIMSS20 Global Health Conference & Exhibition was called off. The event was slated to welcome more than 44,000 attendees and generate over $110 million in spending.

All of the state’s theme parks are closed. Walt Disney World, Universal Orlando Resort, SeaWorld and Legoland, to name a few, are an integral part of the state’s travel and tourism industry. The theme park business is responsible for drawing a substantial share of visitors to Florida each year. Walt Disney World and Universal Orlando Resort are also two of the three largest employers in Central Florida, with staff count of 75,000 and 27,000, respectively. Both theme parks will remain closed until the end of March, although this could be extended depending on the situation.

Florida is expected to see its real GDP growth slow from 2.8% in 2019 to 1.7% this year, before it shores up to 2.6% next year.
## TD State Forecasts

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**Source:** BEA, BLS, Census Bureau, CoreLogic, TD Economics. Forecasts by TD Economics as at March 2020.

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