State Economic Forecast

Beata Caranci, SVP & Chief Economist | 416-982-8067
Leslie Preston, Managing Director | 416-983-7053
Admir Kolaj, Economist | 416-944-6318
Andrew Foran, Economist | 416-350-8927

March 16, 2023

New England

- New England's economy picked up in the second half of 2022 after a slow start to the year, pushing growth for the year up to 1.9%. For 2023, we expect the region's GDP growth to slow to 1.1% – slightly below the national average. Unemployment rates are projected to rise gradually this year as the region's pace of hiring slows to 1.2%. Home prices are expected to decline 2.2% in 2023 – trailing the national average due to the region's tight supply conditions.

Middle Atlantic

- The Middle Atlantic economy expanded by 2.9% in 2022, as healthy services sector growth boosted New York and New Jersey. The expansion is expected to slow to 1.3% this year, in line with the nation, as past rate hikes continue to filter through the economy. Labor markets are forecast to cool accordingly, pushing unemployment rates higher into next year. Amid a softer labor market and higher rates, home prices are expected to fall in all three states this year, with New York experiencing above average declines.

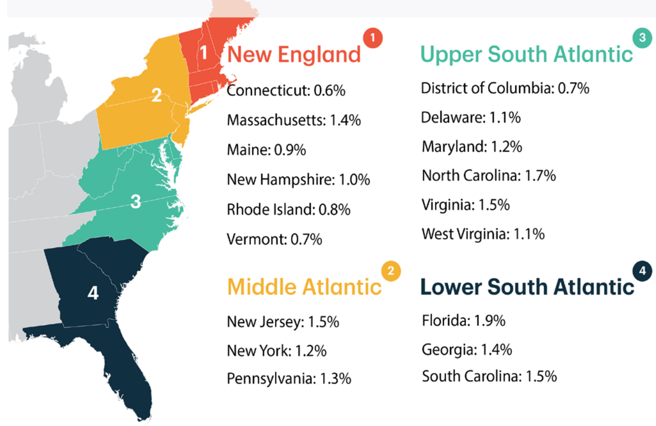
Upper South Atlantic

- Economic growth in the Upper South Atlantic region slowed to an estimated 1.8% last year. The deceleration is poised to continue into 2023, with the region expected to grow by 1.4% – broadly in line with the nation. Alongside the softer economic expansion, the labor market is expected to loosen with the region's employment growth projected to slow to 1.8 % in 2023. That said, economic performance will vary under the (regional) hood. North Carolina's solid fundamentals, including a population growing at more than double the national rate , suggest that the Tar Heel State will continue to lead the region this year.

Lower South Atlantic

- The Lower South Atlantic region capped off a decent year, with economic growth estimated at 3.4% in 2022 – well ahead of the nation. Strong employment growth in January across the region paints a bright picture at the start of this year, but the rapid-rebound phase is in the rearview mirror. The expansion is projected to slow to 1.7% in 2023, with outsized gains in Florida helping the region keep an edge over the nation. Housing is a key piece of the slowdown, where a steep erosion in affordability continues to weigh on activity. Above-average population growth will nonetheless help keep a floor on housing activity and lend a hand to overall economic growth.

Real GDP by State Forecast (2023)



Source: TD Economics. Forecast as of March 2023.

For more on the national outlook please see our Quarterly Economic Forecast.

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

Connecticut: Labor Market Cools

Connecticut's economy is expected to slow a bit more than the nation this year, as the state's outsized manufacturing sector slows under higher interest rates. Real GDP growth is forecast to downshift from 2.5% in 2022 to 0.6% in 2023, before rebounding gradually to 0.7% in 2024.

Despite seeing a run-up in housing prices similar to the national average over the past three years, Connecticut's price declines (in seasonally adjusted terms) over the second half of 2022 were about a fifth of the size of those seen at the national level (Chart 1). We expect that price declines in Connecticut will continue this year, with seasonally adjusted housing prices forecast to fall by 1.3%. Declines are expected to continue to lag the national average as the low levels of homebuilding activity last year restrain the amount of new supply coming online this year.

The labor market stalled in Connecticut over the last three months of 2022 but ticked up moderately in January. The modest rebound brought the unemployment rate down to 3.9% – 0.4 percentage points above its pre-pandemic level. This near-term strength is not expected to be sustained, as labor supply problems persist over the near-term, with the labor force still 1.3% below its pre-pandemic level, and the labor force participation rate down a full percentage point since June 2022. Looking forward, we expect the unemployment rate to trek higher this year and average 4.1% as the broader economy cools.

Recent strength in two of Connecticut's largest employment sectors, health care and leisure & hospitality, has helped to offset weakness in other service sectors, such as retail trade and financial activities. On the goods side, manufacturing employment growth has slowed after the sector returned to its pre-pandemic level in October. The projected increase in defense spending by the U.S. and its allies is expected to provide some support to manufacturing jobs in the state, with Electric Boat (submarines) recently receiving a 7-year $5.1 billion contract modification at the end of last year for continued work on the Columbia-class program.

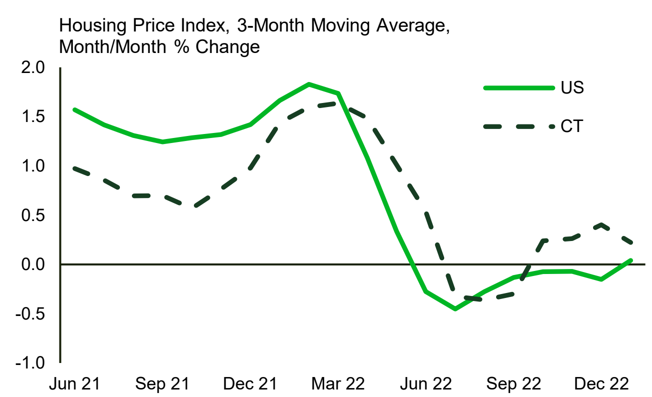
Over the medium term, Governor Lamont has announced a host of budget proposals for the 2024-2025 fiscal years which could provide a tailwind for growth. The proposed measures include $541 million in tax relief for lower- and middle-income residents as well as small business owners. Connecticut, like many other states, has seen its fiscal position improve considerably during the past few years allowing it to earmark more funding towards fiscal outlays.

Massachusetts: Domestic Migration Outflows Weigh on Labor Force

The largest economy in New England is expected to see growth slow to 1.4% in 2023, before slowing further to 1.1% in 2024. Outsized exposure to high growth industries will be a blessing and a curse for the Bay State over the next few years as higher financing costs cause it to become a drag in the near term. However, as financial conditions ease in 2024 and beyond these industries will support a relatively strong turnaround.

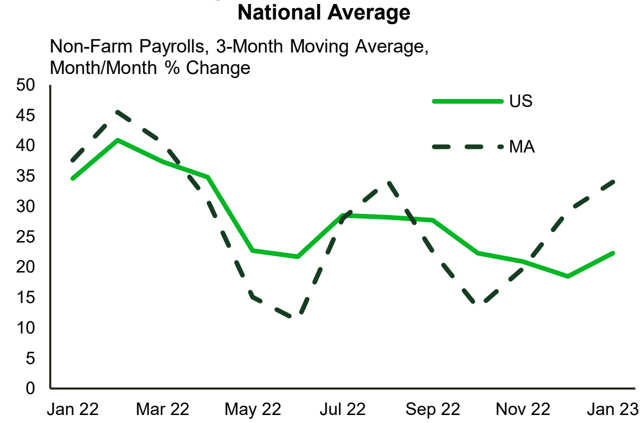
Massachusetts finally returned to its pre-pandemic employment level in January 2023. Job growth remained close to the national average for most of 2022 before rising higher in recent months (Chart 2). The labor supply

Chart 1: Housing Price Appreciation in CT Outpaced National in 2022Q4



Source: CoreLogic, TD Economics.

Chart 2: Strong Job Growth in MA Remains Above National Average



Source: U.S. BLS, TD Economics.

picture is more concerning, as the labor force declined by 0.6% in the past year. This was likely due in part to the 24% increase in domestic migration outflows in 2022, which would have had a larger impact on the labor force if Massachusetts did not also have the highest per capita international migration inflows in the country in 2022. The labor force participation rate declined by nearly 0.6 percentage points in the second half of last year, which is also contributing to the state's persistent labor supply issues. Still, strong job growth has allowed the unemployment rate to tick down to 3.6%, which is about 0.8 percentage points above its pre-pandemic level. We expect that the unemployment rate will rise gradually this year to average 3.7% as higher rates slow demand.

At the industry level, goods sectors were slowing more quickly than at the national level at the end of last year, with job losses occurring in the manufacturing sector, although January marked a notable uptick. In contrast, service sectors in the Bay State have outpaced the nation, particularly in professional & business services, which saw job growth of 4.4% in 2022 – a full percentage point above the national average. The health care and leisure & hospitality sectors are also continuing to see robust growth, roughly equal to the national average.

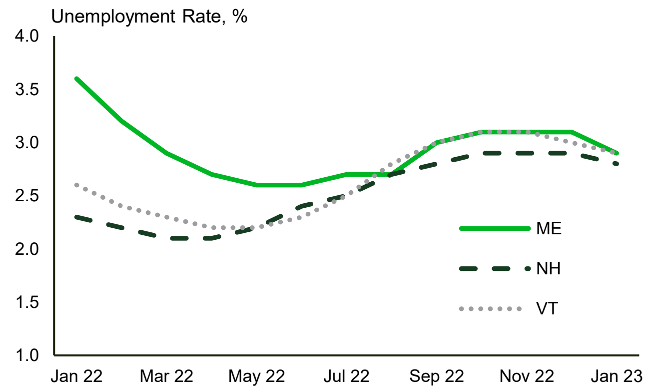
While high profile tech layoffs have not hit Massachusetts in great numbers, the state's biotech industry has seen roughly 1,000 layoffs so far this year, mostly among small and medium-sized enterprises (SMEs). Larger firms which have accumulated substantial reserves since the onset of the health crisis appear to be rowing in the other direction, with Moderna announcing it intends to add nearly 2,000 jobs this year.

New Hampshire, Maine, Vermont: Unemployment Rate Rises Reverse Course

The northern states of the region, Maine, New Hampshire, and Vermont, experienced economic growth on par with the nation for most of 2022. The state economies are estimated to have expanded by 1.8%, 0.0%, and 2.7% respectively last year. An important caveat here is that New Hampshire's growth for the first half of 2022 was revised down significantly after an outsized rise at the end of 2021, which is weighing down the annual growth rate for 2022. Looking to 2023, we expect growth to moderate to 0.9% in Maine, 1.0% in New Hampshire, and 0.7% in Vermont.

Over the past few months, employment growth has varied by state, with New Hampshire and Maine slightly above the national average, while Vermont has seen slightly

Chart 3: Northern Tristate Area Sees UR Declines After Previous Increases



Source: U.S. BLS, TD Economics.

slower job growth. All three states saw their unemployment rates rise by roughly half a percentage point in the second half of 2022. However, recent labor market strength has retraced some of the upward movement, with Maine and Vermont at 2.9%, and New Hampshire at 2.8% (Chart 3). Labor supply issues have been relatively more acute in these states as weak post-pandemic labor force participation rates keep labor force growth below the national average. Looking forward, we expect the unemployment rates for Maine, New Hampshire, and Vermont to average 3.0%, 2.9%, and 3.1% respectively for 2023.

At the industry level, each of the three states have above average employment shares in the manufacturing sector. Over the last three months of 2022, New Hampshire saw manufacturing jobs grow by 1.4%, while Maine and Vermont saw declines of 0.2% and 1.4% respectively. In the service sectors, New Hampshire and Vermont have seen above average growth in the professional & business services sector, whereas Maine has seen stronger growth in health care and leisure & hospitality. Job growth in these sectors will slow this year, but over the longer-term health care jobs in particular will be supported by each state's aging demographics.

House prices in the northern tristate area saw the largest appreciations in the Northeast during the past three years, however recent trends among the three states have diverged. Maine has seen a reacceleration in price growth over the past three months, while New Hampshire and Vermont have seen more volatility, with price growth slowing on aggregate. Looking forward, we expect prices to cool in 2023, with Maine and Vermont seeing slightly faster decelerations based on above average improvements in supply.

Middle Atlantic (NJ, NY, PA)

New Jersey: Service Sectors Buttress Growth

New Jersey's economy grew by an impressive 2.7% in 2022, aided in part by a strong employment recovery. Moving forward, economic growth is expected to slow in step with the nation as service sectors, which have contributed disproportionately to the state's growth over the past year, slow. We expect that the Garden State will grow by 1.5% this year before slowing to 1.0% in 2024.

Seasonally adjusted housing prices in New Jersey grew by 1.4% in the three months ending in January, far outpacing the national decline of 0.2% over the same time period. We expect that the state's near-term strength will fade this year, and that price growth will slow to 0.3% this year as supply gradually improves.

Employment growth in New Jersey during the past three months nearly doubled the national average and was the fastest in the Northeast. While domestic migration outflows remained a headwind to labor supply in 2022, a solid recovery in the labor force participation rate and an uptick in international immigration helped to boost the labor force back to its pre-pandemic level – an accomplishment unique to New Jersey within the Northeast. The robust demand for labor has seen the unemployment rate decline, but it ticked up to 3.4% in January. Looking ahead, we expect the unemployment rate to average 3.4% for 2023.

The goods industries in the Garden State fared poorly last year, with construction and manufacturing jobs growing more slowly than the national average. Among the service sectors, health care and education were the standouts last year, making up 32% of all net jobs added (Chart 4). The switch in consumption patterns away from goods that benefitted many New Jersey service sectors last year is cyclical, meaning that these sectors are likely to slow with the broader economy this year.

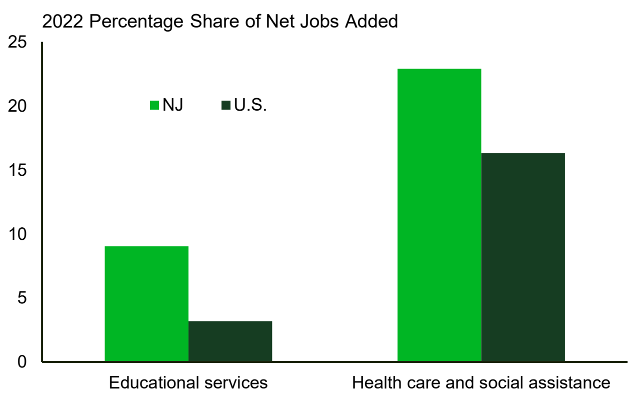
Over the medium term, New Jersey will benefit from recent announced investments, such as the $848M allocated by Netflix to develop a production facility on the site of the former Army installation at Fort Monmouth. The investment is expected to create 3,500 jobs during the construction phase and 1,500 permanent film production jobs once completed. Campbell Soup Company also recently announced that it will be investing $50 million over the next three years to enhance its Camden headquarters and relocate 330 jobs from other states.

New York: Health Care Underpins Job Growth Strength

Economic growth in the Empire State outpaced the nation last year, growing by 3.3%. While the state saw the fastest growth in the Northeast in 2022, this was in part due to the slower post-pandemic recovery the state saw in 2021. We expect that the New York economy will slow in 2023 to 1.2%, slightly below the national average.

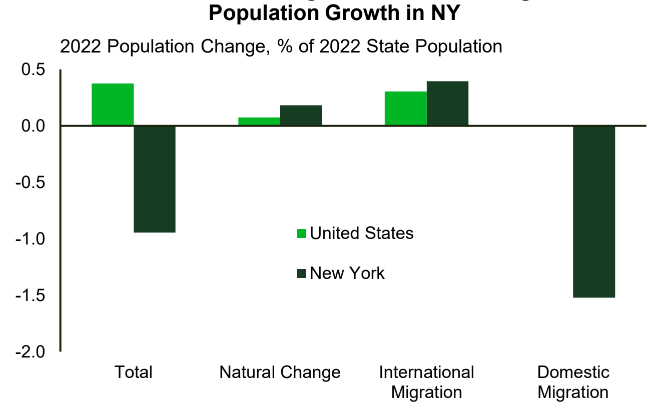
Job growth has been steady in recent months, staying slightly above the national tally, but employment remains 1.5% below its pre-pandemic level. The recent uptick in job growth has been supported by a revival of the solid labor force growth seen in early 2022, aided by a rising participation rate. However, the labor force remains 2.6% below its pre-pandemic level, as New York continued to see the highest per capita out-of-state migration in the country, which more than offset a solid rebound in international immigration (Chart 5). The unemployment rate rose to

Chart 4: Health Care and Education Boosted NJ's 2022 Job Growth



Source: U.S., BLS, TD Economics.

Chart 5: Domestic Migration Outflows Weigh on Population Growth in NY



Note: Domestic migration is equal to zero at the national level.
Source: U.S. Census Bureau, TD Economics.

start 2023, pushing it up to 4.2% – half a percentage point above its previous cycle low. We expect that it will rise further in 2023 to average 4.4%.

The goods producing sectors in New York have seen diverging job growth trends in recent months, with recent strength in construction contrasting relatively softer hiring in manufacturing. Job growth in the service sectors was dominated by health care, leisure & hospitality, and professional & business services in 2022. These three sectors made up over 70% of all net jobs added last year. The financial activities sector began to see job losses late last year, which appear to have continued into 2023 with Goldman Sachs recently announcing 609 layoffs from its investment brokerage segment. Tech sector layoffs have also continued into the new year, with Google and Amazon announcing just under 1,200 layoffs cumulatively, adding to the 1,300 layoffs announced by Twitter and Meta at the end of last year.

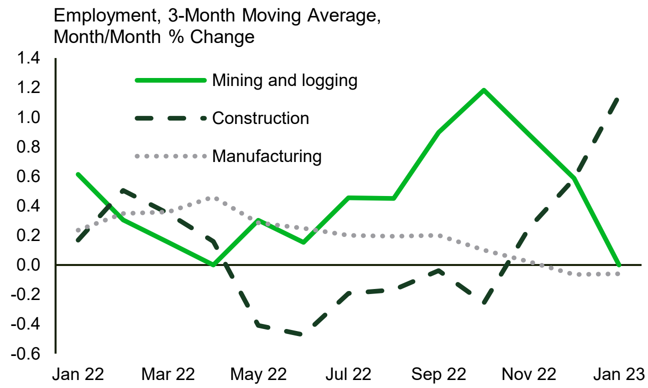
Despite the slowdown in manufacturing, there have been some positive announcements in recent months. General Motors recently announced a $68 million investment in its Rochester facility with most of the funds allocated to produce electric vehicle (EV) battery components. In addition, Plug Power (hydrogen fuel cells) recently completed construction of its $125 million Albany facility which is expected to create 1,600 new jobs.

Pennsylvania: Lower Natural Gas Prices Weigh on Growth

Pennsylvania's economy grew by 2.1% last year, as elevated energy prices and a continued recovery in the sectors hit hardest by the pandemic boosted the state's performance. Looking forward the combination of lower natural gas prices and higher interest rates is expected to contribute to a deceleration in economic growth to 1.3% in 2023 and 0.8% in 2024.

Seasonally adjusted housing prices in Pennsylvania rose 0.7% in the second half of 2022, differing greatly from the national decline of 1.6%. While price growth has slowed considerably since last summer, prices picked up modestly in January. Total house price appreciation in the Keystone State over the past three years was less than the national average, but price growth in 2022 was relatively stronger than the nation's. Since homebuilding activity in 2022 declined notably from 2021, we expect that low supply levels will continue to be a problem this year, keeping price declines relatively modest. We expect home prices will pull back by 1.6% in 2023 and 5.0% in 2024.

Chart 6: Construction Diverges From Goods Sector Weakness in PA



Source: U.S. BLS, TD Economics.

The goods sectors in the Keystone State have seen diverging job growth trends over the past three months, with construction seeing very strong growth of 3.5%, manufacturing declining by 0.2%, and mining stalling after seeing strong growth for most of 2022 (Chart 6). In contrast, the state's service sectors have seen strong and broad-based growth in recent months, with the largest employment sector, health care, leading the charge. However, white collar sector hiring has begun to slow, including financial activities and professional & technical services.

Overall employment growth has remained robust in Pennsylvania and has tracked the national growth rate closely in recent months. However, labor supply issues remain, with the labor force still 1% below its pre-pandemic level. Like its mid-Atlantic neighbors, population trends in 2022 were broadly unfavorable, with an uptick in international immigration failing to offset domestic migration outflows. On a more positive note, Pennsylvania's labor force participation rate ticked up in January for the first time since last April, rising by 0.2 percentage points and pushing the labor force up by 0.2% month-on-month. While this will benefit the state, the ratio of job openings to unemployed individuals rose to its highest level since June in December, reflecting the continuation of labor supply issues over the near-term. The unemployment rate ticked down at the end of last year to 4.3% and remained unchanged in January. In 2023, we expect that the unemployment rate will rise and average 4.5%.

Upper South Atlantic (DC, DE, MD, NC, VA,WV)

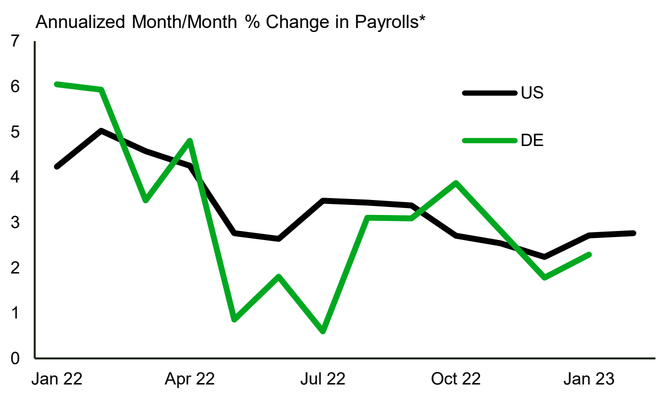
Delaware: Growth to Slow this Year

Employment in Delaware grew by 0.5% in January, starting the year on very decent footing. However, on a trend basis, job growth has lost some steam, with the softness concentrated in sectors such as retail and management services (Chart 7). The labor market remains relatively tight, with the unemployment rate hovering around 4.5% over the past year. While this level of unemployment is higher than before the pandemic, its partly the result of a stronger labor force recovery (+3.2%) compared to the nation (+1.1%).

The outlook for the state economy in the year ahead is mixed. The economy-wide job openings rate sits well above its pre-pandemic level and has failed to retreat recently as it has done nationwide. This suggests that there's still considerable demand for labor, and that there's likely some more growth in the tank. Healthcare is one major area that still struggles to attract talent. Consider that in the state's Department of Health and Social Services, more than a fifth of total positions remain unfilled. But, despite plenty of job vacancies across the state, the rapid-rebound phase is likely in the rearview mirror, and with a high interest rate environment weighing on important areas of the economy, growth should shift into lower gear this year, slowing from 2.0% in 2022 to 1.1% in 2023.

Following several months of weak home sales, the price growth trend recently dipped into negative territory too. Rising inventory levels (up 29% y/y in January) and the fact that homes are spending more time on the market suggest that the weakness will continue. Despite this, we expect home prices in the state to record a below-average decline this year. For one, despite recent increases in inventory, the market is still relatively tight, with the months' supply of inventory at 2.3 in January. Homebuilders are cautious, with housing permits already below pre-pandemic levels – a factor that will limit supply pressures down the road.

Chart 7: Delaware Job Growth Has Lost Steam



Source: BLS, TD Economics. *Seasonally adjusted, 3-month moving average.

While a high interest rate environment is a clear obstacle for housing, its impact on another key industry, finance, is more nuanced. Higher rates will continue to weigh on loan demand, but they are also likely to boost net interest margins, with the potential for some upside for the industry too. Given the massive challenges in securing talent during the pandemic, there's scope for some financial institutions to ride out the slowdown by reshuffling workers within the firm. Following news of hiring freezes, an expansion from a major bank in the state, which will add over 700 jobs ahead, marks a recent positive development for the sector. The recent negative reverberations in finance and banking will nonetheless bear careful watching, given that the sector makes up 9% of total employment in the state – more than double the national share.

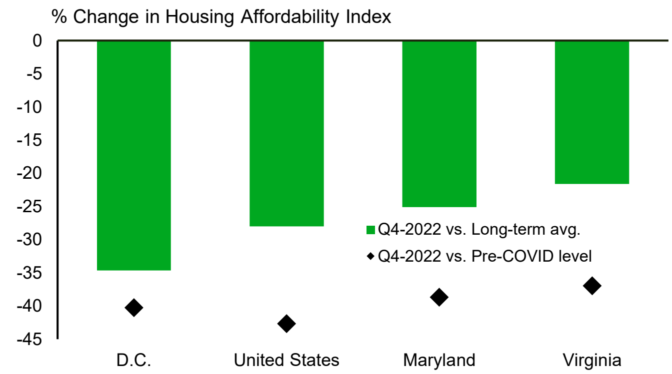
DC-Maryland-Virginia (DMV): Headwinds to Restrict Growth

DC, which lags in the pandemic employment recovery, was leading the DMV region in job growth at the end of last year, with gains heavily concentrated in its leisure & hospitality sector. This dynamic changed at the start of this year, with stronger gains in Va. and Md. shifting these two back in the driver's seat. The three-month (annualized) hiring pace in January stood at 2.5% for Va., 2.2% for Md. and 1.8% for DC – somewhat slower, but not far behind that of the nation (2.7%).

Amazon's decision to pause the construction of its HQ2 in Arlington, Va. marks a setback. But the first phase of its expansion project – Met Park, which can accommodate 14,000 workers – is still slated to open later this year, with many jobs yet to be filled over the medium term. Moreover, smaller-scale expansions from other firms remain plentiful, and Va. has attracted other HQs recently (i.e., Raytheon, Boeing). The fact that the FBI's new headquarters, with some 7.5k jobs tied to the facility, will remain within the DMV (either in Md. or Va.) holds additional promise for the region.

Overall, with DC still in recovery mode, Md. having more catching up to do, and economic developments in Va. still a relatively good-news story, the regional economy is primed for additional growth. Demand for labor remains strong so far across the region, reaffirming this view. The

Chart 8: Housing Affordability Has Fallen Sharply, Especially Weak in D.C.



Source: NAR, BEA, Moody's, TD Economics.

ratio between job openings and unemployed workers is higher than the national average across all three. DC's is particularly elevated, with more than 3 jobs available per unemployed worker, compared just 1.9 nationwide. The lack of workers, however, will weigh on growth over the near-term. DC and Md. lag on labor force recovery (down respectively 3% and 6% from pre-COVID levels). Recent data show that immigration inflows improved across the trio last year. The resumption of more typical immigration patterns should lend a hand to labor supply, mitigating the negative impact of domestic outmigration.

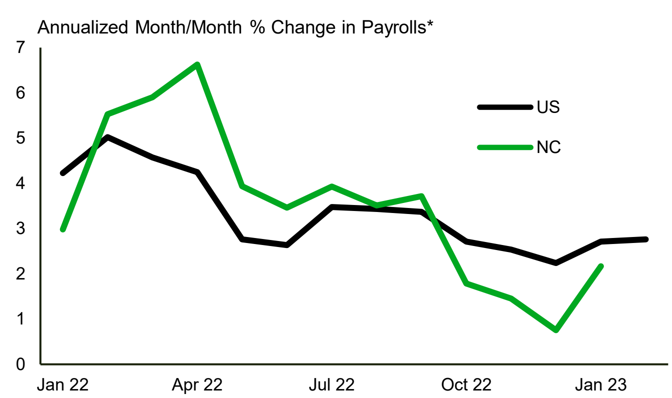
The region is still set to slow over the coming year, in line with the national economy. The increase in borrowing costs continues to take a toll on the regional housing market. The weakness is more pronounced in DC with sales down close to 50% y/y recently. Activity in Md. and Va., meanwhile, was down 38% and 30% y/y respectively at the start of this year. The erosion to housing affordability has been steep (Chart 8). Home prices – down around 1% in Md. and Va., and 2% in DC from their 2022 peak – have some further to fall to reflect this change.

North Carolina: Keeping an Edge Over the Nation

The Tar Heel state is expected to keep an edge over the nation even as growth slows from 3.2% in 2022 to 1.7% in 2023. Job growth has eased to 2.2% (annualized), running slightly below the national pace (Chart 9). The state's job market is cooling after outperforming in the post-pandemic period. Payrolls have risen 5% from the start of the health crisis – the seventh best showing in the nation. Key sectors such as finance, professional & tech services, and transportation, all expanded at an above-average clip over this period. Job vacancies, which are still well above pre-COVID levels, suggest that the state economy has further to expand. In addition, while the economic news cycle has not been free of potholes – health insurance firm Centene's decision to back out of plans for an HQ in Charlotte (a $1B/3,200 jobs endeavor) marked a disappointment – expansion plans among firms remain overwhelmingly positive. Recently announced expansions at Fidelity (finance), UPS (transportation), and at Tageos, Kempower and Siemens Mobility ($220M, 500 job facility) in the manufacturing space, mark a few recent positive examples. Meanwhile, massive long-term investments in the semiconductor and auto/EV space totaling several billions (i.e., from Wolfspeed, Toyota, VinFast), should help generate thousands of jobs going forward. Besides expanding the state's manufacturing capacity, these will also have positive spillovers for professional and tech services. Google's engineering hub and Apple's upcoming campus in the Research Triangle are added positive developments for the sector.

North Carolina's economic outperformance in recent years has been enabled by above-average population growth as Americans flock to the state. Domestic in-migration should ease a bit over the medium term but remain firmly positive. The unemployment rate is expected to rise alongside slower economic growth. Housing is a key piece of the slowdown. Home prices have declined 1% from their 2022 peak, while homebuilders are pulling back on new projects, with residential permits down 20% from their 2022 high point. The hit to housing affordability during the pandemic suggests that home prices have further to fall ahead. However, a decent employment profile and a favorable demographic backdrop will help limit the decline.

Chart 9: North Carolina Job Growth Has Slowed, But Remains Decent



Source: BLS, TD Economics. *Seasonally adjusted, 3-month moving average.

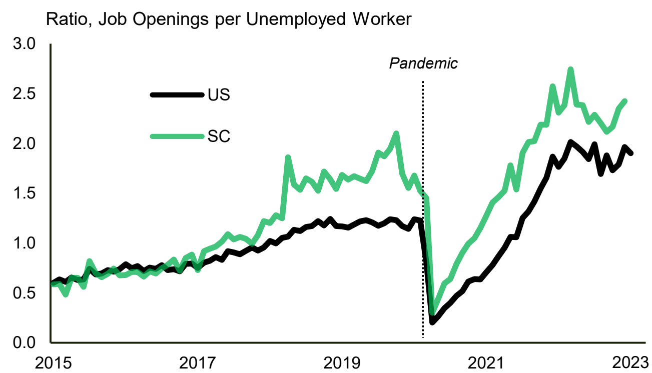
Lower South Atlantic (SC, FL)

South Carolina: Growth to Slow, but Remain Above National Rate

The growth narrative for South Carolina remains relatively positive with strong investments planned in the state's growing manufacturing sector. We expect the Palmetto State to keep an edge over the nation, even as growth slows from an estimated 2.5% last year to an 1.5% this year.

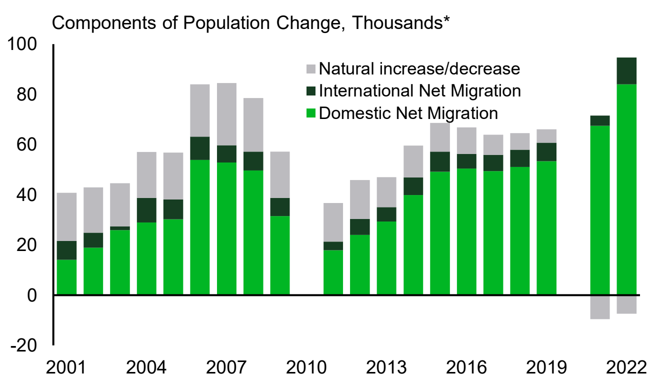
South Carolina joined in on the strong job growth theme in January, with payrolls expanding by 0.4% (m/m) – the best monthly showing since September 2022. However, zooming out the lens, the hiring pace has lost steam on a trend basis over the last few months. Despite the softer job trend, the labor market remains tight. At 3.2%, the unemployment rate is not far off its pre-COVID level of 2.9%. In addition, the state continues to attract plenty of capital – an important element that should pave the way for additional gains ahead.

Chart 10: Still Plenty of Jobs Available for Unemployed South Carolina Workers



Source: BLS, JOLTS, TD Economics.

Chart 11: South Carolina Population Growth Driven By Domestic In-migration



Source: Census Bureau, TD Economics. *Data break in 2010, 2020 represents Census year.

Total capital investment announcements topped $10B in 2022 – a banner year for the state. These investments are expected to create over 14,000 jobs in the years ahead. Investments in the electric vehicle (EV) space continue to top the list. BMW's $1.7B expansion plan in the EV and battery space has been followed by more good news. Supplying the batteries to BMW will be Envision AESC, which will build a new Gigafactory in the state, with its $810M investment poised to create 1,200 jobs. Another firm, Redwood Materials, will build a new $3.5B battery materials and recycling facility near Charleston, which will eventually employ 1,500 workers. Meanwhile, Scout Motors, recently announced that it will build a new EV plant near Columbia, with its $2B investment having the potential to generate 4,000 jobs. The state's EV future is looking bright, as a result. As the top exporter of tires and completed passenger motor vehicles South Carolina should continue to capitalize on pent-up demand for vehicles in the near-to-medium term.

There are plenty of positive developments in other areas of the Palmetto State, with examples including expansions at IKO (roofing, $360M, 180 jobs), GE Appliances ($50M distribution center), and Erchonia (laser tech manufacturer, relocating HQ and 50 jobs from Florida to Greenville, SC). In fact, recent data show a very comfortable ratio of 2.4 available jobs per unemployed worker – higher than nationally (Chart 10). To fulfill these jobs, the economy will continue to rely heavily on the inflow of Americans from other parts of the country.

South Carolina saw a surge in migration from other states during the pandemic. The pace of this migration is expected to slow, but it is poised to remain the state's biggest source of population growth over the medium term (Chart 11). This positive inflow will, among other things, help support public sector hiring, lend a hand to consumption, and keep a floor under housing as it goes over the latest bump. Home sales were down over 30% y/y at the start of the year, while prices have moved mostly sideways since July 2022. South Carolina has seen a more pronounced deterioration in affordability than the nation as a whole, off 48% from the pre-pandemic period. This suggests home prices will have to give back a small portion of their pandemic gains, particularly as the labor market loosens a bit in the year ahead.

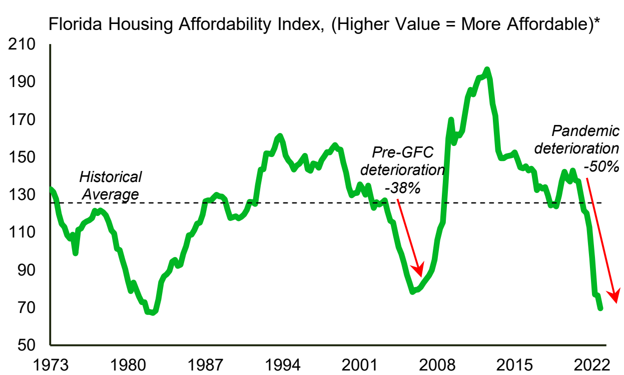
Florida: Solid Fundamentals to Support Economy Amid Slowdown

The Florida economy grew at the fastest pace on the East Coast last year, expanding by roughly 4%. A big part of the state's growth outperformance has been nation-leading population growth, largely driven by Americans flocking to the Sunshine State, although international migration also improved last year. Domestic inflows may abate a bit but should remain firmly positive, helping to keep growth above the national average despite a softening backdrop.

Hurricane Ian drove job losses in the hard-hit Cape Coral-Fort Myers metro area in October, but job gains resumed quickly in the following months. Overall job growth in the state has slowed from mid-2022 highs, but remains above the national pace. At 2.6%, the state unemployment rate its below its pre-COVID level (3%) and not far off record lows (2.4%). In some key metro areas such as Tampa, Jacksonville, and Miami, the unemployment rate is even lower. We expect some loosening in the labor market is in the cards, in line with the slowdown in the broader economy.

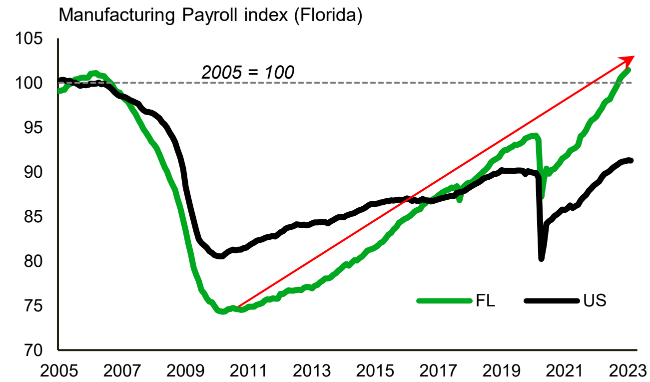
Florida's housing market continues to cool, with sales down 35% y/y and housing permits trending lower. Home price growth found some footing at the start of the year, but with mortgage rates still elevated, this is likely to prove temporary. Housing inventories have increased notably over the past year, supporting the view for some loosening in housing conditions. Housing affordability took an above-average hit during the pandemic (Chart 12), suggesting prices will need to come down further, but only retrace part of their pandemic gains. An inflow

Chart 12: Florida Housing Affordability Index Plumbing Historic Depths



Source: NAR, BEA, Moody's, TD Economics. *Quarterly data.

Chart 13: Florida Has Seen a Manufacturing Revival, Payrolls Back Above Mid-2005 Levels



Source: BLS, TD Economics.

of people from other parts of the country, and an above average presence of cash buyers who are less impacted by higher mortgage rates should also help keep a floor under housing activity.

Demand for workers remained strong at the turn of the year, with roughly 2 jobs available for every unemployed worker – slightly ahead of the nation. This positive narrative is echoed in plenty of expansions dotting the calendar. Case in point, software firm Kaseya will expand its Miami headquarters, creating 3,400 jobs in the process with salaries averaging over $100k. Expansions in the logistics space (i.e., Buffalo Rock, Logistics Plus; 500 jobs combined) and in manufacturing (i.e., Dassault, aircraft maintenance facility, 400 jobs) mark other positive developments.

Manufacturing payrolls are up an impressive 8% from pre-COVID levels, but the sector's recovery is remarkable even from a long-term perspective (Chart 13). As we outline in a recent note, however, several headwinds are likely to curtail activity in U.S. manufacturing this year, with Florida also likely to feel an impact. Leisure & hospitality, another sector that has pushed past its pre-pandemic peak in employment, may have more gas in the tank. But progress will be curtailed by a slowing national economy that will weigh on domestic visits, and elevated labor costs (hourly earnings in the industry are up 24% from pre-COVID period) that will constrain hiring.

TD State Forecasts															
States	Real GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Home Prices (% Chg.)			Population (% Chg.)		
	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F
National	**2.1**	**1.3**	**1.0**	**4.3**	**1.7**	**-0.6**	**3.6**	**3.6**	**4.5**	**14.7**	**-3.0**	**-5.6**	**0.4**	**0.5**	**0.5**
New England	**1.9**	**1.1**	**0.9**	**3.6**	**1.2**	**-0.7**	**3.6**	**3.6**	**4.4**	**11.8**	**-2.2**	**-5.1**	**0.1**	**0.1**	**0.2**
Connecticut	2.5	0.6	0.7	3.1	0.6	-0.8	4.2	4.1	4.9	11.7	-1.3	-4.4	0.1	0.2	0.2
Massachusetts	2.0	1.4	1.1	4.1	1.6	-0.6	3.8	3.7	4.5	10.0	-3.0	-5.0	-0.1	-0.1	0.1
Maine	1.8	0.9	0.5	2.5	1.2	-0.7	2.9	3.0	3.8	15.5	-1.5	-5.7	0.6	0.8	0.4
New Hampshire	0.0	1.0	0.8	3.6	1.1	-0.6	2.5	2.9	3.7	14.4	-1.2	-5.4	0.6	0.6	0.5
Rhode Island	1.5	0.8	0.7	3.4	-0.2	-0.5	3.2	3.4	4.3	12.7	-2.7	-5.5	-0.3	-0.1	0.0
Vermont	2.7	0.7	0.6	3.0	0.4	-0.4	2.6	3.1	3.9	17.2	-0.4	-6.1	0.0	0.1	0.0
Middle Atlantic	**2.9**	**1.3**	**0.9**	**4.8**	**1.6**	**-0.5**	**4.1**	**4.2**	**5.0**	**9.8**	**-2.6**	**-5.0**	**-0.5**	**-0.2**	**0.0**
New Jersey	2.7	1.5	1.0	5.2	1.6	-0.4	3.7	3.4	4.2	12.6	0.3	-6.0	-0.1	0.2	0.3
New York	3.3	1.2	0.9	5.1	1.5	-0.6	4.3	4.4	5.3	8.1	-4.4	-4.6	-0.9	-0.5	-0.2
Pennsylvania	2.1	1.3	0.8	4.0	1.6	-0.5	4.4	4.5	5.3	10.9	-1.6	-5.0	-0.3	-0.1	0.0
Upper South Atlantic	**1.8**	**1.4**	**1.3**	**3.4**	**1.8**	**-0.3**	**3.4**	**3.6**	**4.4**	**13.3**	**-2.9**	**-5.5**	**0.5**	**0.7**	**0.7**
District of Columbia	1.8	0.7	0.9	3.8	1.2	-0.2	4.6	4.6	5.7	2.7	-3.5	-6.1	0.5	0.3	0.1
Delaware	2.0	1.1	1.2	4.1	1.8	-0.3	4.5	4.7	5.2	13.6	-1.4	-4.8	1.4	1.1	1.0
Maryland	0.2	1.2	1.3	2.3	1.3	-0.5	3.2	3.3	4.1	10.0	-3.1	-4.9	-0.2	0.2	0.4
North Carolina	3.2	1.7	1.4	4.3	2.2	-0.2	3.6	3.9	4.8	20.0	-2.6	-6.1	1.3	1.2	1.2
Virginia	1.6	1.5	1.3	3.1	1.9	-0.4	2.8	3.3	3.9	10.3	-3.0	-5.5	0.3	0.5	0.6
West Virginia	0.2	1.1	0.8	2.2	0.8	-0.3	3.9	4.2	4.8	11.4	-3.4	-3.9	-0.6	-0.4	-0.4
Lower South Atlantic	**3.4**	**1.7**	**1.3**	**5.2**	**2.4**	**0.0**	**3.0**	**3.1**	**4.1**	**23.8**	**-2.0**	**-6.5**	**1.7**	**1.4**	**1.4**
Florida	3.9	1.9	1.4	5.7	2.8	0.1	2.9	2.9	3.9	25.9	-2.1	-6.6	1.9	1.6	1.5
Georgia	2.7	1.4	1.1	4.5	1.9	-0.2	3.0	3.4	4.4	19.3	-1.8	-6.7	1.2	1.1	1.1
South Carolina	2.5	1.5	1.3	4.1	2.2	-0.1	3.3	3.4	4.2	20.6	-2.0	-6.3	1.7	1.3	1.2

Source: BEA, BLS, Census Bureau, CoreLogic, TD Economics. Forecasts by TD Economics as at March 2023.