# TD Economics

# State Economic Forecast

September 20, 2024

## New England

The New England economy has continued to expand at a stable pace in 2024. Unemployment rates for most states in the region have partially retraced the uptick seen in the second half of 2023, except for Massachusetts and Rhode Island which have moved higher due to strong labor force growth. We expect the region's unemployment rate to trend gradually higher through the end of the year, as employment growth slows moving into 2025. Growth in house prices is also expected to moderate this year, but supply shortages are expected to keep prices growing at a faster pace than the national average.

## Middle Atlantic

The Middle Atlantic economy has begun to pick-up the pace, led by a modest rebound in New York. Real GDP growth is expected to converge with the nation in 2025 for the first time in three years, as monetary policy easing begins to support growth. Unemployment rates in New York and New Jersey are expected to decline gradually in 2025, while labor market tightness in Pennsylvania is expected to ease in line with slower growth and gradually raise the state's unemployment rate.

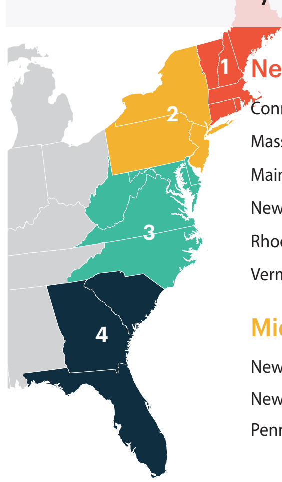
## Upper South Atlantic

The Upper South Atlantic region's economy is estimated to grow by 2.4% this year – a touch below the national rate. Economic activity is forecast to shift into lower gear ahead, once again tracking modestly below the national pace at 1.8% next year. Performances within the region vary. At the low end are those with already relatively weaker labor markets, including Delaware, D.C. and West Virginia. Meanwhile, North Carolina is forecast to keep a slight edge over the nation, thanks in part to strong population growth and ongoing large investments in manufacturing.

## Lower South Atlantic

The Lower South Atlantic region's economy continues to outperform, with growth of 3.4% on tap for this year, well ahead of the 2.6% pace nationally. That said, with the economic cycle maturing and the impact of elevated interest rates continuing to bite, activity is expected to slow in the quarters ahead before rate cuts eventually sow the seeds to a turnaround late next year. Strong population growth and the fact that the region continues to attract plenty of investments, suggest it will manage to keep an edge over the nation in 2025, led by outsized gains in Florida (2.6%) and South Carolina (2.4%). The one spot that bears watching is Florida's condo market, with fast-rising inventories signalling ongoing weakness for the segment in the year ahead.

### Real GDP by State Forecast (2024)




**1 New England**

Connecticut: 2.0%
Massachusetts: 2.3%
Maine: 2.2%
New Hampshire: 2.1%
Rhode Island: 2.0%
Vermont: 1.9%

**2 Middle Atlantic**

New Jersey: 2.3%
New York: 1.9%
Pennsylvania: 2.4%

**3 Upper South Atlantic**

District of Columbia: 1.5%
Delaware: 2.4%
Maryland: 1.5%
North Carolina: 2.8%
Virginia: 2.7%
West Virginia: 2.0%

**4 Lower South Atlantic**

Florida: 3.7%
Georgia: 2.7%
South Carolina: 3.6%

Source: TD Economics. Forecast as of September 2024.

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

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

## Connecticut: Easing Financial Conditions to Aid Key Sectors

Connecticut's economy has moderated in 2024 but remains stable on aggregate. The manufacturing sector continues to benefit from non-cyclical national defense spending, although this channel is beginning to cool as federal appropriations see slower growth. At the same time, a modest recovery in the financial services sector combined with solid growth in the state's outsized health care sector is benefiting the economy. We expect that economic growth will equal 2.0% in 2024, before converging closer with its long-run average of 1.4% in 2025.

Despite slowing economic growth, Connecticut's unemployment rate fell sharply over the summer as the state's falling labor force participation rate shrank the labor force. Stable year-to-date job growth, which has outpaced the nation, also played a role, but the 0.8 percentage-point drop in the unemployment rate over the past three months was almost solely driven by the more than 3k people who left the labor force during that time. We expect that the labor force will return to growth through the end of the year, which in addition to slowing job growth will push the unemployment rate slightly higher to average 4.0% in 2025.

Job gains in 2024 continue to be concentrated in a handful of sectors, with three-in-four net jobs added in 2024 coming from the health, education, and government sectors (Chart 1). The remaining support for headline job growth has come from a rebound in leisure & hospitality hiring in 2024, in addition to modest job growth in financial activities and construction. Manufacturing job growth has slowed in recent months. Despite a healthy defense procurement pipeline, uncertainty related to the election clouds the outlook for defense spending in 2025 and beyond. Moving into the new year, lower financing costs and federal budget clarity should help lead to broader employment gains.

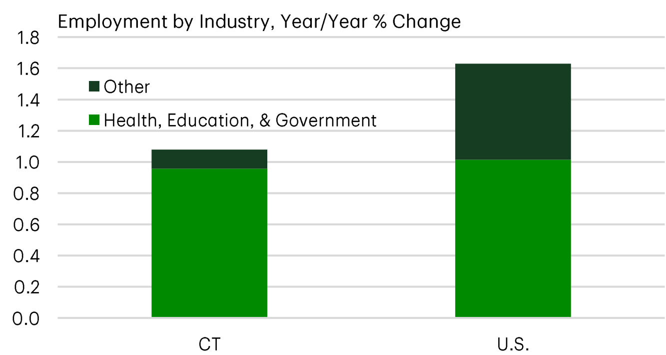
Like its job market, Connecticut's housing market has also seen price growth outpace the national average so far this year. Inventory levels have improved in 2024, but remain exceptionally tight relative to demand, which has kept a floor under price growth. New home construction had improved to start the year but has since weakened as financing costs remained elevated. Moving into 2025, we expect that lower interest rates will lead to moderating supply constraints in the new and existing home markets and slower home price growth of 2.7%.

## Massachusetts: Growth in Labor Supply Pushes Labor Market Back into Balance

The Bay State economy has continued to expand at a below-average pace as elevated interest rates have weighed on the tech and white-collar sectors. The state's large health care sector has remained a stabilizing influence, which has helped to keep the state close to its potential growth rate. As financial conditions continue to loosen moving forward, we expect growth to stabilize at 2.0% in 2025.

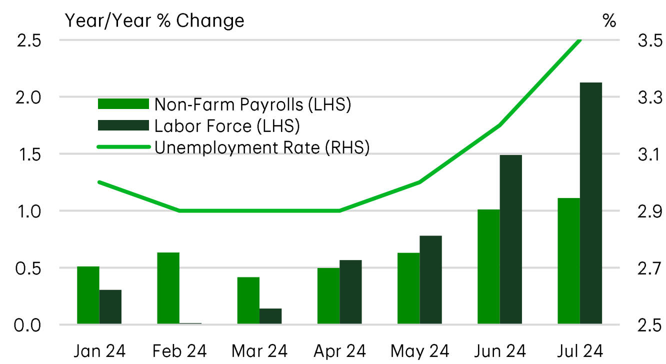
Employment growth has picked up in recent months, but this has not kept pace with a jump in labor force growth, which has pushed the unemployment rate up sharply over the past three months (Chart 2). The uptick in labor

**Chart 1: Job Growth in Cyclical Sectors Weaker in CT**




Note: Growth is relative to July 2024.
Source: U.S. Bureau of Labor Statistics, TD Economics.

**Chart 2: Strong Labor Force Growth Pushing Up Unemployment Rate in MA**




Source: U.S. Bureau of Labor Statistics, TD Economics.

force growth was driven by an increase in labor force participation, which has now almost returned to its pre-pandemic level. This has helped to alleviate some of the labor force shortages in the state, with the unemployment rate rising to its highest level since early 2018 outside of the pandemic. We expect that the unemployment rate will rise more slowly moving forward, trending slightly higher moving into 2025 and averaging 3.6% for the year.

One reason why employment growth spiked recently was a large uptick in state government payrolls, which added over 10k new positions over the past three months. However, given that there is a hiring freeze in effect for the state executive branch, this growth is unlikely to persist. In the private sector, job growth has been primarily driven by the health care sector, although a short-lived uptick in white-collar job growth also supported headline job growth over the past three months. In the goods sectors, construction hiring has kept pace with the national average, but manufacturing has seen steep job cuts over the past six months. Job growth is expected to remain modest in 2024 but rise to 0.8% in 2025 as financial conditions ease.

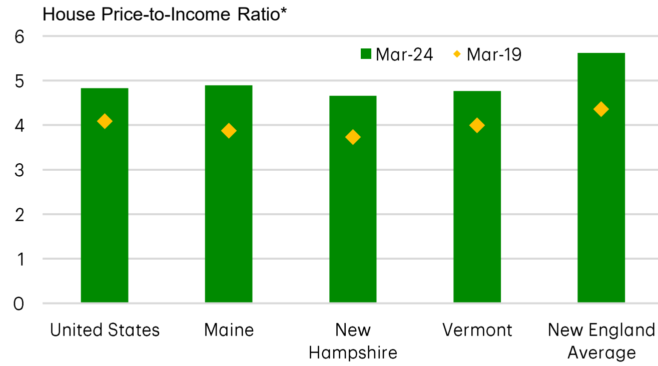
The Bay State housing market continues to be challenged by stretched affordability. However, persistent supply shortages have kept price growth above the national average so far this year. There isn't much help on the way from homebuilding either, with activity down notably since the start of the year. We expect price growth of 5.4% in 2024, before moderating to 1.7% in 2025 as lower interest rates gradually improve supply issues.

## New Hampshire, Maine, Vermont: Housing Price Growth to Moderate as Affordability Advantage Narrows

The northern tri-state region's economy has generally been in line with the broader New England region's below-average pace of growth in 2024. However, summer tourism has provided a near-term boost to Maine and Vermont, while New Hampshire has seen a modest rebound in its white-collar sector. Moving into 2025, we expect that growth will fall by less in New Hampshire as this trend persists, while declining domestic migration inflows are expected to weigh more on growth in Maine and Vermont.

All three states have seen their labor markets tighten in recent months as their unemployment rates have partially reversed the uptick seen through the second half of last year. This occurred despite above average labor force growth in all three states. With job growth falling below the national average in all three states, further downward movement in the unemployment rate will likely be limited. We expect that the unemployment rates of all three states will rise slightly moving into 2025, with next year's average equal to 3.2% in Maine, 2.7% in New Hampshire, and 2.6% in Vermont.

**Chart 3: Housing Affordability in Maine Modestly Worse Than Peers**




*Median existing single-family home price to median household income. Source: U.S. Census Bureau, National Association of Realtors, Moody's Analytics, TD Economics.

The composition of employment gains in the northern tri-state region has followed national developments, marked by a concentration in the health care sector. Among the other service sectors, Maine and Vermont have also recorded sizeable payroll growth in the leisure & hospitality sector as tourism season picked up over the summer. New Hampshire, in addition to Vermont, has also seen a pick-up in white collar job growth, particularly in the professional & technical services sector. The goods sectors have fared worse however, as job growth in the construction and manufacturing sectors has been weaker than average in all three states in 2024.

The construction sector may benefit from the recent uptick in housing permits in all three states, as they all continue to contend with low housing inventory levels. Tight supply conditions have led house price growth to more than double the national average in New Hampshire and Vermont, while Maine has lagged slightly. From a price-to-income perspective, Maine is the only state of the three to be (modestly) less affordable than the national average, which may partially explain the recent divergence (Chart 3). Moving into 2025 we expect housing price growth to fall to 1.4% in Maine, 1.8% in New Hampshire, and 2.5% in Vermont.

# Middle Atlantic (NJ, NY, PA)

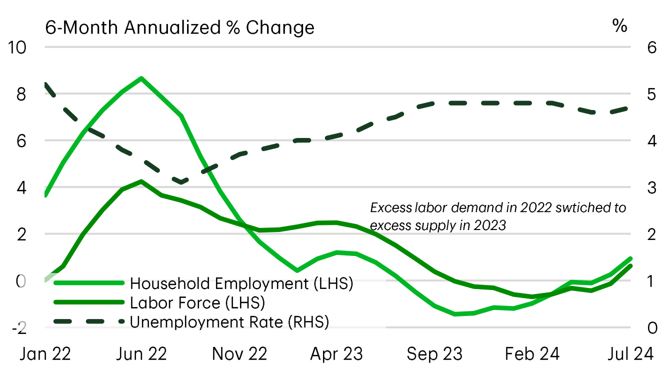
## New Jersey: Economic Growth Expected to Stabilize Under Lower Rates

The Garden State economy has continued to struggle under the weight of high interest rates, due to it's large white-collar sector as firms continue to engage in cost cutting. Similar headwinds have also resulted in a contraction in the state's manufacturing sector, in part owing to weakness among the large pharmaceutical firms located in New Jersey. Moving into 2025, New Jersey is expected to outpace the national growth rate as lower financing rates stabilize the economy.

The Garden State's unemployment rate has been rising due to a combination of slower job growth and an uptick in labor force growth. The unemployment rate remains atypically high after an unusually weak performance in household survey employment growth over the past year led to excess labor supply (Chart 4). Coming into 2024, businesses have also begun to report considerably weaker job growth with non-farm payrolls employment almost unchanged for the year and job openings falling. We expect New Jersey's unemployment rate to gradually trend lower moving into 2025 to average 4.5%.

The composition of New Jersey's job growth in 2024 has been more concentrated than its peers in the Northeast. If the health care, education, and government sectors were excluded, the state would have lost jobs in 2024. The bulk of the losses have come from leisure & hospitality, financial activities, manufacturing, and professional & business services, with these sectors accounting for just under 40% of the state's employment. We expect employment growth will diversify as firm hiring normalizes in more cyclical sectors under lower interest rates.

**Chart 4: New Jersey's Labor Market Returns to Balanced State in 2024**




Source: U.S. Bureau of Labor Statistics, TD Economics.

Despite below-average economic growth, New Jersey has seen the fourth highest year-to-date house price gains in the nation. Existing inventory levels remain low and homebuilding activity has fallen notably over the past three months, which has kept a floor under price growth. Home sales have made progress over the past year, but remain subdued on aggregate as buyers await lower financing costs. Supply constraints are expected to keep price growth elevated in 2024 at 7.4%, before moderating to 1.8% in 2025.

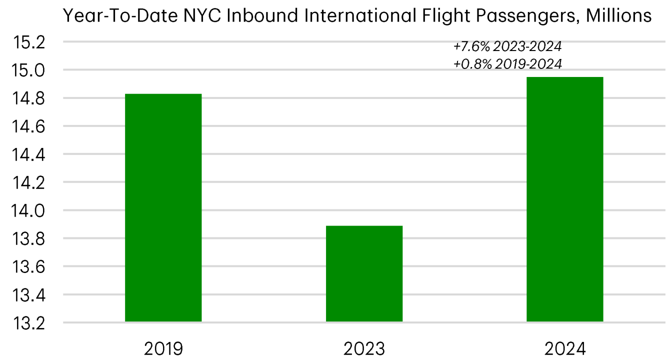
## New York: Economic Rebound Aided by Thawing Rate-Sensitive Sectors

New York's economy has begun to gradually converge with the national economy, as it has experienced a modest rebound in 2024. However, a broad-based rebound in economic activity is not expected to occur until next year as key industries, such as the outsized financial sector, begin to benefit from looser financial conditions. For 2024 we expect growth to come in at 1.9%, before pushing slightly higher to 2.1% in 2025.

New York's job market has bucked the national trend so far this year, with an acceleration in job growth and jump up in job openings. Combined with a decline in the labor force over the same period, the unemployment rate has trended down to 4.2% in June. We expect that the unemployment rate will rise slightly through the end of the year to average 4.4%, before trending lower in 2025 as the economy rebounds.

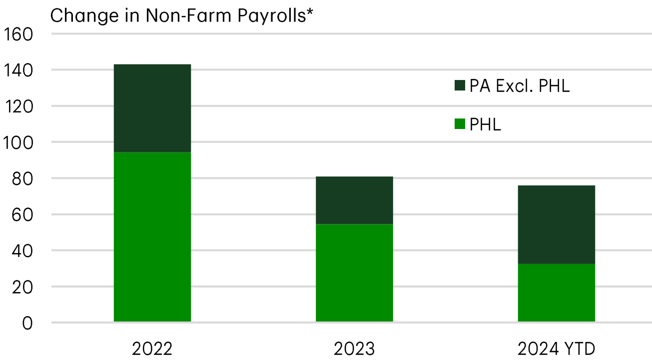
Like its peers in the Northeast, the health care sector has been the primary torchbearer of job growth in the Empire State. The industry now accounts for nearly one-in-five jobs in the state. The sizeable white-collar sector has also seen an uptick in job growth in 2024 and is now on-par with the nation for the year, while the financial sector has struggled to sustain its second quarter rebound. Summer tourism has also boosted leisure & hospitality payrolls, particularly in the New York City as year-to-date international flight passenger numbers have risen above the pre-pandemic level for the first time (Chart 5). Manufacturing jobs have also risen by nearly 1% in the state in 2024, while the sector has been roughly flat at the national level. Longer-term job support is also expected to be provided by Hudson Tunnel Project, which recently received $12 billion in funding from the federal government, and the

**Chart 5: International Travel Returns to Pre-Pandemic Level in NYC**




Note: Year-to-date is January-July. Source: Port Authority of New York and New Jersey, TD Economics.

**Chart 6: Pennsylvania's Job Gains Have Shifted Away From Prior Reliance on Philadelphia**




Note: Change is annual, except for 2024 YTD which is year-to-date. Source: U.S. Bureau of Labor Statistics, TD Economics.

expected start of construction on the first of four planned semiconductor manufacturing facilities by Micron in central New York next year.

House prices in New York have been volatile in 2024, as a New York City led acceleration in price growth reversed course moving into the middle of the year. The run-up in prices was likely in part driven by a material decline in supply coming into 2024, with the number of homes for sale down 5.4% year-on-year.  Moving into 2025 we expect price growth to ease from 3.3% in 2024 to 1.4% in 2025.

## Pennsylvania: Employment Growth Broadens Beyond Philadelphia in 2024

Economic growth in the Keystone State economy has continued to keep pace with the national average through the first half of 2024, as stable real income gains continued to support household consumption. The state's large health care sector remains a key pillar of support to growth, but signs of weakness are becoming more apparent in most other sectors. We expect growth of 2.4% this year, before the economy moderates to 1.4% in 2025.

The employment situation in Pennsylvania has remained favorable on aggregate, with year-to-date job gains almost matching total gains in 2023, while the unemployment rate has remained near its historic low. Pennsylvania's ability to maintain momentum in 2024 has come from an uptick in job gains outside of Philadelphia, with the state's largest city accounting for less than half of its 2024 job gains – down from two-thirds in the prior two years (Chart 6). The state's labor force participation rate has also levelled off after a notable uptick earlier in the year returned it to its pre-pandemic level. This has also resulted in slower labor force growth over the past few months which, amid a summer uptick in job growth, has kept the labor market tight. However, job openings have declined by 12.4% since the start of the year and labor demand is expected to cool further through the second half of the year. We expect the unemployment rate to rise to average 3.5% in 2024 before ticking higher to average 3.9% in 2025.

In 2024, 85% of Pennsylvania's net job gains have come from the health care and leisure & hospitality sectors, with both accelerating through the middle of the year. The public sector has also supported job growth, in addition to a modest rebound in the manufacturing and construction sectors which has taken form over the past few months. In contrast, the education sector has now recorded eight consecutive months of job losses on the back of budget cuts across multiple institutions. The sizeable white-collar sector has also been flat on aggregate, as gains in the financial sector have been offset by losses in professional & business services.  Moving into 2025, we expect that employment growth will converge closer to its long-run average as economic growth moderates.

House price growth in Pennsylvania has slightly outpaced the national average in 2024, although both markets have seen growth decelerate through the first half of the year. In Pennsylvania, the deceleration has slowed over the past few months as price declines in Philadelphia have been offset by price gains in more affordable markets in the state. Low supply levels and Pennsylvania's affordability advantage relative to other states in the Northeast is expected to keep price growth slightly above average in 2024, but we expect that growth will moderate to 1.5% in 2025 as supply conditions gradually improve.

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

## DC-Maryland-Virginia (DMV): A Mixed Picture

The DMV region's economies continue move at different speeds. This theme is evident in job growth, with Va. and Md. pacing ahead of the U.S. recently and D.C. trailing behind. Unemployment rates have continued to trend higher in Md. and D.C., standing at 2.8% and 5.5% respectfully in July. However, Va. has gone against the grain, with its jobless rate falling from 3% at the start of the year to 2.7% (Chart 7). This is partly the result of a gentle pullback in its labor force, a trend that we don't anticipate will last. Decent population growth for Va. means that its labor force is poised to expand ahead, something that will eventually put upward pressure on the unemployment rate as employment growth in the state and region is poised to slow.

One common trend in the region is cooling labor demand, with job opening rates trending lower recently. Nonetheless, the ratio of available jobs to unemployed workers is still much higher than nationally at 1.8 in D.C. and Md. and an even higher 2.0 in Va. This suggests the positive jobs trends has room to run. Still, we anticipate the inflow of workers in the labor force will continue to outpace job growth in the quarters ahead, with unemployment rates topping out at around 5.7% for D.C., 3.2% for Md. and 3.4% for Va. around mid-2025.

A softening in the labor market will weigh on housing, but lower interest rates will help provide some counterbalance, with benefits likely more visible later next year. The fact that the region's housing market is tighter than most, with a months' supply of inventory of 1.9 in Md. and 2.3 in Va., suggests that downward pressure on home prices will be limited. At the same time, subpar construction activity across the region so far this year, with single-family permits up only 8.5% ytd (vs. 14% nationally) and multi-family permits down 26% (vs. -14%), is an added factor that will limit downward pressure on prices.

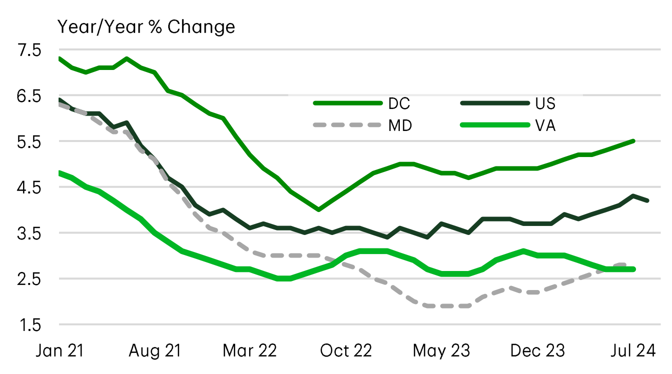
All in all, we anticipate a moderate economic performance for the region this year, with Va. to lead the charge at 2.7%, followed by 1.5% in Md. and D.C.. This profile hides some of the volatility caused by a major bridge collapse, which temporarily shut down the Port of Baltimore. The rebuilding of the bridge will lend a hand to construction sector at the margin in the years ahead, with work slated to begin next year.

## North Carolina: A Bright Beacon, But Growth Is Poised to Ease

The Tar Heel State economy is having another successful year, with growth projected at 2.8% – roughly on par with the pace in the year prior. We anticipate the state will continue to keep an edge on the nation and many of its neighbors, thanks in part to above-average population growth and the fact that the state remains a magnet for investment. Even so, we expect cyclical forces will still lead growth to shift into a lower gear ahead, with the state economy forecast to grow by 2.1% in 2025.

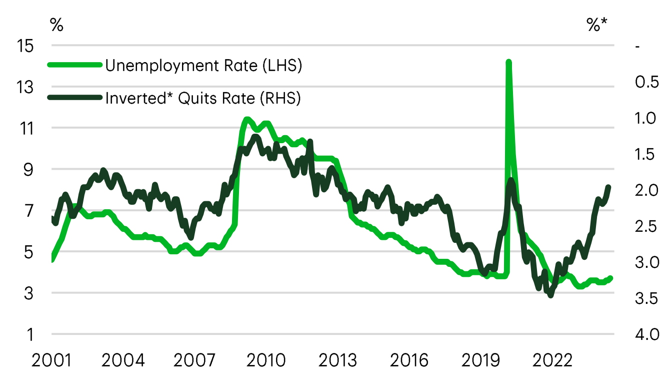
Employment growth in North Carolina accelerated past the national pace this spring and the state's unemployment rate has risen only modestly to 3.7% – not far off post-pandemic lows of 3.3%. Wage growth is also advancing at an above-average clip of 4.6% y/y. Still, digging deeper, several data indicate that employment growth is poised to ease ahead. The total job openings rate in the state has continued to edge lower and is now slightly below its 2019 average – the only state on the eastern

**Chart 7: Virginia's Unemployment Rate Goes Against the Grain, Holds at 2.7% Recently**




Source: BLS, TD Economics.

**Chart 8: Sharp Drop in Quits Rate Signals Further Loosening in North Carolina Labor Market**




*Inverted scale. Source: BLS, JOLTS, TD Economics.

seaboard with such an outcome. Moreover, the quits rate has pulled back swiftly and is roughly 24% below its pre-pandemic level – by far the weakest showing on the East Coast (Chart 8). The fact that workers in North Carolina are more reluctant than before the pandemic to switch jobs is an indication that the labor market is cooling, with some further loosening likely in the cards. Despite these soft signals, plenty of other developments reaffirm the theme that the state economy will still manage to hold its own ahead. To this end, several high-profile expansions have been announced recently, including those at Novo Nordisk (pharma, $4.1 billion investment, 1000 jobs), Fujifilm Diosynth (biotech, $1.2 billion, 680 jobs), Morinaga (manufacturing, $136 million, 200 jobs), Duotech Services (defense, $65 million, 95 jobs). These are on top of other large investments announced previously in the semiconductor (Wolfspeed) and auto & EV space (Toyota). The one fly in the ointment for the auto industry is the production delay at EV manufacturer VinFast, with the timeline scaled back by four years to 2028.

Switching to the housing market, the hot post-pandemic run is well in the rear-view mirror. Home price growth has recently cooled alongside the national trend, easing below 3% (annualized) for a change. This has come alongside an increase in the number of homes for sale, with the months supply of inventory standing at 4.3 in July – not a buyers' market but certainly more balanced than a year ago. Permits for the in-demand single-family segment are up 11% y/y for the first seven months of 2024. With more new inventory slated to enter the market, home price growth should cool further into early 2025, before the cumulative impact of the Fed's rate cuts begins to stage a turnaround for housing and the overall economy.

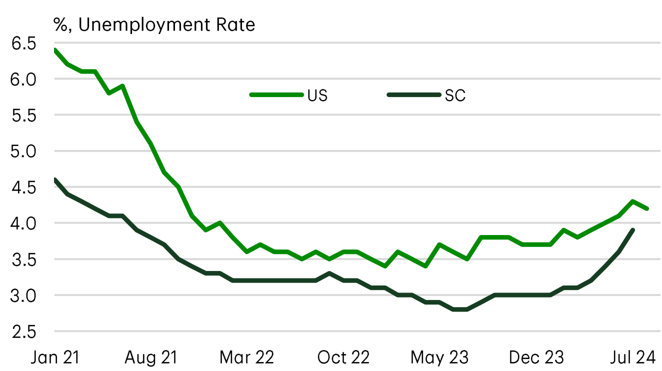
# Lower South Atlantic (SC, GA, FL)

## South Carolina: Activity Trending Lower, But Ongoing Investments Will Lend a Hand

The Palmetto State has grown at a healthy clip so far this year, but there are some signs of cooling. Among these, the unemployment rate has risen from a very low level, pointing to a somewhat cooler labor market. Looking ahead, a favorable demographic backdrop and ongoing investments, especially in the manufacturing space, suggest that the state should continue to keep an edge over the nation. The potential for the return of trade disputes post-election bears some risk, given the state's elevated exposure to goods trade. But, assuming the disruptions on the trade front can be largely avoided, we anticipate the state will grow by 3.6% this year, followed by 2.4% next.

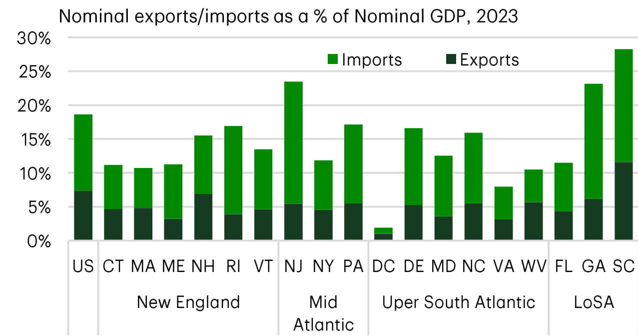
South Carolina's unemployment rate has pushed higher, rising from 3% at the end of last year to 3.9% recently (Chart 9). However, this is principally due to an expanded labor force. The number of people participating in the labor market is up 1.7% year-to-date (ytd) while household employment is up only half as much (+0.8%). In essence, the labor market appears to be absorbing only a limited portion of those joining the labor force – a trend expected to continue over the near term. Establishment payrolls (another source for jobs data) point to a much stronger outcome, with headcount up 2.3% ytd – the best showing in the Southeast. This helps discount some of the softness emitted from a loosening labor market. In addition, job openings in the state remain elevated. While they've come down this year, they are still up 45% from the pre-pandemic level – the best showing on the East Coast. There are still 1.6 openings for every unemployed worker in the state. This suggests that while the pace of job creation is poised to slow, there are more gains to be had ahead. Developments on the ground lend further credence to this view, with plenty of firms still growing their presence in the Palmetto State.

**Chart 9: South Carolina's Unemployment Rose to 3.9% in July**




Source: BLS, TD Economics.

**Chart 10: South Carolina Economy is Highly Exposed to Goods Trade with the World**




Source: BEA, TD Economics.

The positive narrative extends to multiple sectors, with expansions from firms such as Meta (tech, $800 million data center), Portside Technology (IT), and Schneider Electric (energy management), leading to 470 jobs combined. Expansions in manufacturing and its related sectors remain especially popular, with the auto sector a particular area of strength. BMW expanded operations recently by opening a $200 million press shop at its Spartanburg facility, while Volvo began producing a fully electric EV SUV at its Charleston facility. Moreover, investments from Columbia Vehicle Group and ElringKlinger will lead to 300 new jobs combined. Still, this elevated reliance on manufacturing and global trade may pose some risk should trade disputes increase in the year ahead. South Carolina is the most exposed state to global goods trade on the East Coast (Chart 10). The same is true if singling out trade with China, a country that's most likely to be in the trade crosshairs.

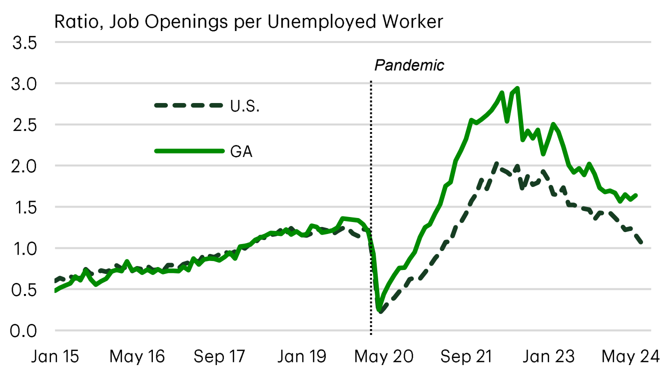
Looking at other areas of the economy, still-decent population growth should continue to provide support to consumer-related industries, including housing. Contrary to the national trend, homebuilding has continued to trend firmly higher this year (up 16% y/y for the first seven months of the year). But, home price growth has softened once again, dipping into shallow negative territory recently. An above-average decline in housing affordability during the pandemic will serve to limit future price gains. But, given that housing inventory is still quite tight, standing at moderately improved 3.4 months of inventory, this latest pullback in prices could be short-lived, particularly as interest rates are projected to head lower.

## Georgia: Rebound to Be Followed by Gentle Deceleration

The Peach State economy continues to fare well, buoyed by a still-decent labor market. While employment growth has slowed recently, it is moderately outpacing the nation at 1.3% annualized. The unemployment rate has nudged up, increasing to 3.4% after holding at a little over 3% for about two years. But, this is still well below the national rate of 4.2%. In addition, this latest increase in the jobless rate has been partially driven by a rapid expansion in the labor force, which is up 1.4% year-to-date (ytd) – one of the best showings in the Southeast. This boost is owed to a combination of an improved participation rate (up 30 basis points ytd), but also decent population growth.

Indeed, people continue to move to the state, even as that trend looks to have abated from earlier in the pandemic. Among the many qualities attracting migrants to Georgia, a favorable labor market tops the list. Job openings have moderated recently, but Georgia still has 1.6 jobs available for every unemployed worker – noticeably higher compared to the 1-to-1 ratio nationally (Chart 11). Looking ahead, demand for workers should be buoyed by a number of recently announced expansions, particularly at manufacturers, with those at GF Casting Solutions, Ritz, and First Quality Baby Products marking a few recent examples. There is good news from other industries too, such as expansions at PrizePicks (fantasy sports, 1000 jobs), and Cargill (food solutions, 400 tech jobs). This underlying optimism in the state's prospects should help to limit the increase in the unemployment rate, even as the economic cycle matures, with our forecast calling for the jobless rate to top out at 4% by mid-2025.

**Chart 11: GA's Ratio of Job Openings to Unemployed Workers Remains Above National**




Source: BLS, JOLTS, TD Economics.

Higher interest rates have been working their way through the economy for some time, taking some wind out of consumer-related industries, with housing a case in point. Inventories are increasing (+49% y/y), albeit from low levels, while home price growth has also cooled (+3% ann.). Rents, meanwhile, have fallen by 7% in the last two years – one of the weakest showings in the region. The latter appears to be taking a toll on multifamily construction activity and construction jobs (down 1.2% ytd). The softness in housing may have some more room to run. But, with interest rates slated to head lower ahead, the burden from higher rates should begin to ease, with housing activity poised to benefit.

All told, we anticipate the Peach State economy to rebound from a weak showing early last year and grow by 2.7% this year, before easing to 1.8% in 2025.

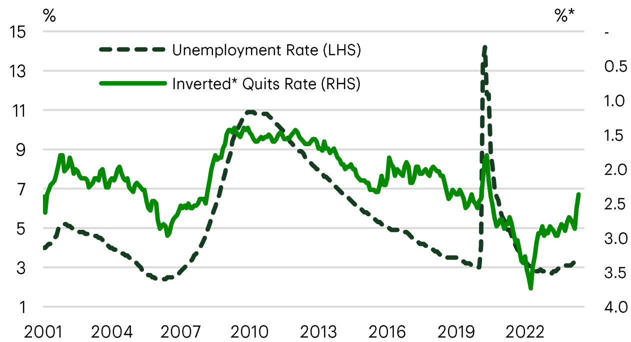
## Florida: Growing but Slowing

Even in the Sunshine State there are growing signs that activity is shifting into lower gear. Labor market developments are at the forefront of this narrative, while a deterioration in the housing market, more specifically the condo segment, presents an added near-term hurdle to economic momentum.

Florida's labor market has come into better balance over the past year. The unemployment rate has risen to 3.3% recently from a cycle-low of 2.7% last spring. The jobless rate would have been even higher, were it not for a contraction in the labor force over the last few months. Signals on job growth have been mixed recently. Employment has been falling on a consistent basis since February in the household survey (pacing at -1.6% ann.), but establishment payrolls data paint a much stronger picture (+1.8% ann.). This divergence between the two metrics is not typical for Florida, but looking at other related indicators, the theme of "growing but slowing" emitted from payrolls seems more fitting.

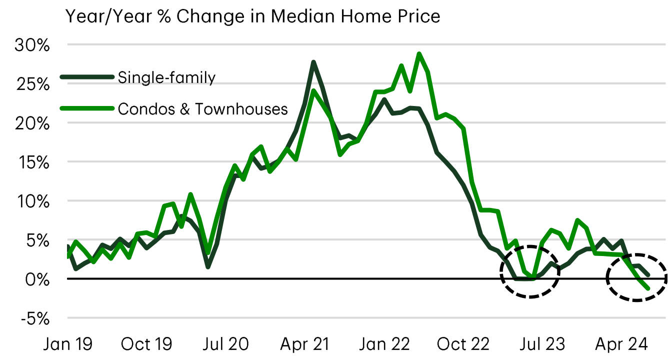
A sharp pullback in the quits rate across the state buttresses the notion of a cooling labor market, as does a continued easing in job openings (Chart 12). Still, the ratio of job openings to unemployed workers only re-

**Chart 12: Sharp Drop in Quits Rate is an Added Sign that Florida's Labor Market is Loosening**




Source: BLS, JOLTS, TD Economics.

**Chart 13: Florida Condo Price Growth Falls in Negative Territory**




Source: Florida Association of Realtors, Moody's, TD Economics.

cently matched its pre-pandemic level, and at 1.4 it remains above the U.S. average of 1.1. This suggests that job creation has more runway ahead, even as the rapid growth of the post-pandemic period gives way to a more measured pace of gains. One area that highlights the recent slowdown theme is leisure & hospitality, with sectoral job growth starting the year on a solid note but dipping into shallow negative territory recently. Longer-term prospects for the sector are still upbeat, as evidenced by plenty of ongoing capacity-enhancing investments in the space (i.e., entertainment venues, hotels etc.). But, in the near-to-medium term, as the regional and national economy cools, tourism-related activities will feel the pinch. Thankfully, with the Fed now in cutting mode, lower rates should help provide some moderate counterbalance.

The state's housing market will take all the Fed policy easing it can get. With housing affordability badly strained, and Florida homeowners hit by plenty of other costs (i.e., elevated home insurance premiums), it is no surprise that housing demand and home price growth have cooled (Chart 13). The negative pressure is concentrated in the condo space, where inventories have almost doubled from year-ago levels, amounting to 7.4 months of supply in July. The weakness is related to a new law affecting older condos, that's leading to large increases in HOA fees or substantial 'special assessment' fees. We anticipate more owners will list their condos in the months ahead to try and escape increasing costs. The sector's weakness has the potential to filter through to the single-family market, which for the time being remains on better footing.

All in all, we expect the Florida economy to lose steam in the quarters ahead, but to keep an edge over the nation, growing at a forecasted rate of 3.7% this year and 2.6% next. Given that the weakness in the condo segment has the potential to take additional wind out of the economy's sails than the moderate impact we have already assumed, this is one major area that we will continue to monitor over the near-term.

# State Economic Forecasts

| TD State Forecasts | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| States | Real GDP (% Chg.) | | | Employment (% Chg.) | | | Unemployment Rate (Average, %) | | | Home Prices (% Chg.) | | | Population (% Chg.) | | |
| | 2024F | 2025F | 2026F | 2024F | 2025F | 2026F | 2024F | 2025F | 2026F | 2024F | 2025F | 2026F | 2024F | 2025F | 2026F |
| **National** | **2.6** | **1.9** | **2.3** | **1.6** | **0.9** | **0.8** | **4.1** | **4.2** | **4.0** | **4.0** | **1.2** | **2.8** | **1.0** | **0.9** | **0.7** |
| **New England** | **2.2** | **1.7** | **2.1** | **1.0** | **0.8** | **0.5** | **3.4** | **3.5** | **3.4** | **5.9** | **2.0** | **2.9** | **0.7** | **0.6** | **0.5** |
| Connecticut | 2.0 | 1.4 | 1.6 | 1.0 | 0.7 | 0.4 | 4.1 | 4.0 | 4.1 | 6.9 | 2.7 | 3.1 | 0.3 | 0.3 | 0.2 |
| Massachusetts | 2.3 | 2.0 | 2.4 | 0.8 | 0.9 | 0.7 | 3.3 | 3.3 | 3.3 | 5.4 | 1.7 | 2.8 | 1.0 | 0.9 | 0.7 |
| Maine | 2.2 | 1.5 | 1.6 | 1.2 | 0.6 | 0.4 | 3.1 | 3.2 | 3.1 | 7.1 | 1.4 | 2.9 | 0.6 | 0.5 | 0.4 |
| New Hampshire | 2.1 | 1.8 | 2.2 | 1.2 | 0.8 | 0.6 | 2.6 | 2.7 | 2.7 | 6.6 | 1.8 | 2.7 | 0.7 | 0.6 | 0.5 |
| Rhode Island | 2.0 | 1.1 | 1.5 | 1.6 | 0.5 | 0.3 | 4.3 | 4.4 | 4.1 | 5.0 | 2.2 | 3.0 | 0.6 | 0.4 | 0.2 |
| Vermont | 1.9 | 1.3 | 1.4 | 1.5 | 0.6 | 0.4 | 2.2 | 2.6 | 2.6 | 2.7 | 2.5 | 2.5 | 0.3 | 0.2 | 0.0 |
| **Middle Atlantic** | **2.1** | **1.9** | **2.1** | **1.5** | **0.9** | **0.6** | **4.1** | **4.2** | **4.2** | **4.7** | **1.5** | **2.6** | **0.5** | **0.4** | **0.3** |
| New Jersey | 2.3 | 2.0 | 2.1 | 1.6 | 1.0 | 0.6 | 4.7 | 4.5 | 4.3 | 7.4 | 1.8 | 2.8 | 1.1 | 1.0 | 0.8 |
| New York | 1.9 | 2.1 | 2.2 | 1.5 | 1.1 | 0.7 | 4.3 | 4.3 | 4.3 | 3.3 | 1.4 | 2.5 | 0.4 | 0.3 | 0.1 |
| Pennsylvania | 2.4 | 1.4 | 1.9 | 1.3 | 0.5 | 0.5 | 3.5 | 3.9 | 4.1 | 4.8 | 1.5 | 2.5 | 0.3 | 0.2 | 0.1 |
| **Upper South Atlantic** | **2.4** | **1.8** | **2.1** | **1.4** | **1.2** | **0.9** | **3.4** | **3.7** | **3.5** | **4.1** | **1.2** | **2.5** | **1.1** | **1.0** | **0.8** |
| District of Columbia | 1.5 | 1.3 | 1.6 | 0.7 | 0.8 | 0.4 | 5.4 | 5.7 | 5.3 | 1.0 | 0.8 | 2.1 | 1.0 | 0.6 | 0.3 |
| Delaware | 2.4 | 1.2 | 1.7 | 1.3 | 0.9 | 0.8 | 4.1 | 4.5 | 4.2 | 3.9 | 0.8 | 2.3 | 1.3 | 1.1 | 0.8 |
| Maryland | 1.5 | 1.6 | 2.0 | 0.8 | 1.0 | 0.5 | 2.8 | 3.2 | 2.9 | 3.8 | 0.7 | 2.1 | 0.7 | 0.8 | 0.6 |
| North Carolina | 2.8 | 2.1 | 2.3 | 1.5 | 1.3 | 1.2 | 3.7 | 4.0 | 3.8 | 4.0 | 1.2 | 2.8 | 1.5 | 1.4 | 1.2 |
| Virginia | 2.7 | 1.9 | 2.2 | 1.9 | 1.3 | 1.0 | 2.9 | 3.3 | 3.1 | 4.6 | 1.4 | 2.7 | 1.0 | 0.9 | 0.8 |
| West Virginia | 2.0 | 1.1 | 1.6 | 1.1 | 0.3 | 0.2 | 4.4 | 4.8 | 4.7 | 3.9 | 1.3 | 2.1 | -0.3 | -0.3 | -0.3 |
| **Lower South Atlantic** | **3.4** | **2.4** | **2.7** | **2.1** | **1.7** | **1.4** | **3.4** | **3.9** | **3.7** | **3.0** | **0.5** | **2.6** | **1.8** | **1.6** | **1.5** |
| Florida | 3.7 | 2.6 | 3.0 | 2.3 | 1.8 | 1.6 | 3.4 | 3.9 | 3.7 | 2.3 | 0.2 | 2.5 | 2.0 | 1.8 | 1.7 |
| Georgia | 2.7 | 1.8 | 2.1 | 1.4 | 1.3 | 1.2 | 3.4 | 3.9 | 3.7 | 3.9 | 1.1 | 2.6 | 1.3 | 1.3 | 1.2 |
| South Carolina | 3.6 | 2.4 | 2.6 | 3.1 | 1.7 | 1.4 | 3.5 | 4.0 | 3.7 | 4.0 | 0.8 | 2.9 | 1.5 | 1.4 | 1.2 |

F: Forecast by TD Economics, September 2024. Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, CoreLogic, TD Economics.

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## Disclaimer