TD Economics

State Economic Forecast

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New England

- The New England economy turned a corner last year, with growth rebounding at an estimated 5.7% – in line with the nation. Further progress is in the cards in the year ahead, but with the rapid-recovery phase behind us, growth is anticipated to decelerate to 3.3%. The reopening of the regional economy will help breathe new life into a number of consumer-based industries. However, elevated inflation, which will bite into purchasing power, and higher interest rates, will work in the opposite direction. Tight labor markets, meanwhile, limit some of the growth upside. The Bay State is forecast to lead the region, while the Granite State is expected to keep pace with the nation.

Middle Atlantic

- The Mid-Atlantic region continued to make headway over the past year, even as progress was interrupted by pandemic waves, most recently Omicron. Improving public health trends have allowed governments to further relax restrictions, with the region now wide open for business. This will be a boon for consumer and tourism-related industries, among others. However, as we move past the rapid-recovery phase and labor market constraints become more binding, growth in the region is forecast to decelerate to a little over 3% this year from just shy of 5% last year. New York, which still has some catching up to do, is forecast to outpace the nation this year. Ditto for Pennsylvania, whose outsized energy sector is likely to benefit from an elevated energy price environment.

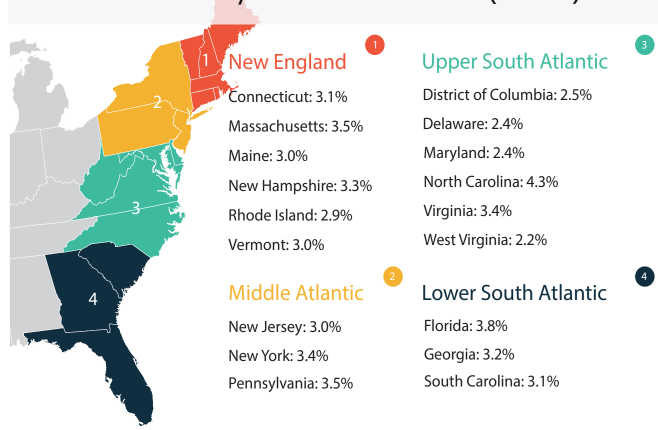
Upper South Atlantic

- Economic activity in the Upper South Atlantic has been solid, despite challenges. Growth in home prices took a breather in Delaware and the Capital Region, but North Carolina's market continued to heat up. Builders are responding however, which should increase depleted inventory. Delaware is making moves to improve its business climate and draw more employers to the state, while tax relief packages to help offset soaring prices are on the agenda in Maryland. All said, the region is expected to post growth of 3.3% this year, just below national's at 3.4%.

Lower South Atlantic

- The economies of the Lower South Atlantic faced both headwinds and tailwinds from the ongoing supply-chain maelstrom. Florida saw an increase in port activity as shippers sought to circumvent backlogs that plagued other ports. Even as congestion eases, the strides made in securing contracts are likely to linger. For South Carolina, increased port activity was a double-edged sword as it caused a backup at their ports, even while revenues surged. Overall, economic activity is expected to come out ahead for the region with growth just above national in 2022 at 3.5%.

Real GDP by State Forecast (2022)



Source: TD Economics. Forecast as of March 2022.

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

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

Connecticut: Room for Growth

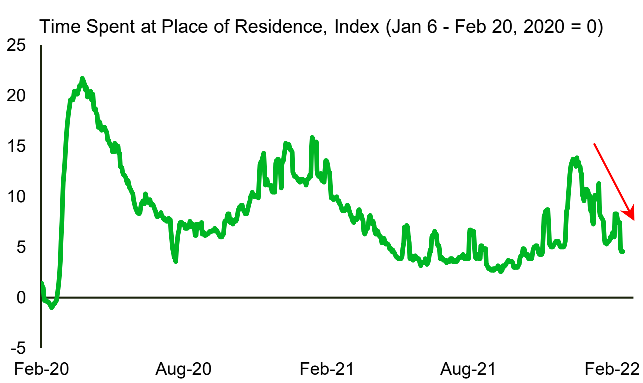
After a soft start to the year, the Connecticut economy has been regaining its mojo in recent weeks (Chart 1). An easing in public health restrictions (including mask-wearing in some settings) will help provide support to consumer-related service activities in the months ahead. The leisure & hospitality industry, which is still furthest behind in the payrolls recovery, stands to be among the largest beneficiaries.

The state's high vaccination rates should stand it in good stead in the event there are further infection waves. Geopolitical tensions, however, are posing new challenges. The Russia-Ukraine conflict will add to supply chain disruptions and keep upward pressure on several important commodity items, thus eroding purchasing power. Meanwhile, as the Fed tries to tame inflation, consumers and businesses will be burdened with higher interest rates, with interest-sensitive sectors such as housing likely lose some steam.

Connecticut's housing sector benefited from an inflow of out-of-state residents during the pandemic, especially from NYC. However, there are signs that this boost is fading – a trend that's likely to continue as the pandemic moves further in the rear-view mirror. At the same time, home price growth has softened considerably from its scorching pace recorded in 2021. An improving employment backdrop and the resumption of more typical international migration patterns will still lend a hand to the sector over the medium term.

Connecticut is home to plenty of job openings despite an unemployment rate that remains on the high side. The state's labor force recovery lags, with total headcount still down 4.3% from the pre-pandemic level. As such, businesses are placing a greater focus on training programs and recruitment campaigns. One industry spearheading these efforts is manufacturing (see here). Manufacturing has been an important source of job growth over the last few months. With production pipelines poised to remain busy at large manufacturers such as Electric Boat and Sikorsky, which continue to win defense contracts, there's more gas in the tank. The industry's defense tilt could reap additional benefits to the extent that the latest geopolitical tensions lead to increased defense spending in the U.S. and abroad.

Chart 1: Connecticut Residents Spend Less Time at Home, Venture out More as Infections Subside



Note: Not seasonally adjusted, 7-day moving average.
Source: Google, Haver Analytics, TD Economics.

The state's economy is more than a one-trick pony, however. Prospects appear bright for several industries, including professional & tech services, which have been an important source of job growth in recent months. Recent expansions across a diverse array of firms, including Hartford HealthCare (5,000 nursing jobs over five years), Breeze Airways, and Amazon (1,000 jobs), support this narrative.

Massachusetts: More catching up to do

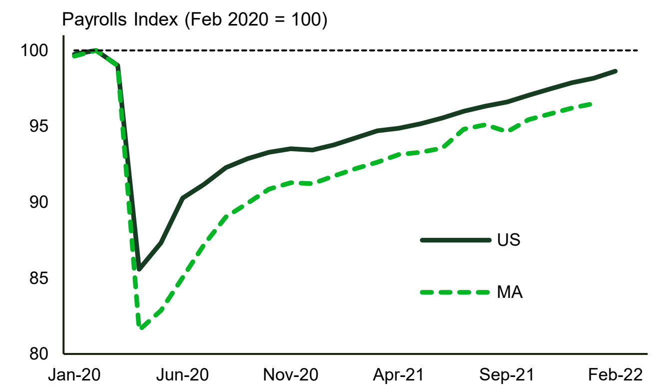
After succumbing to above average pandemic-related hit in 2020, the Bay State economy recorded an outsized real GDP rebound last year. However, the state's labor market has a bit more catching up to do to get back to its pre-pandemic peak (Chart 2). The jobs recovery has been held back by ongoing challenges in leisure & hospitality, and to a lesser degree, education & healthcare. The good news is that these sectors have been recovering jobs at a decent clip over the last several months, with more progress anticipated in the quarters ahead.

The steady improvement in the epidemiological backdrop in recent weeks should be a boon for high-touch service areas across the gamut. It will pave the way for more consumers to return to bars and restaurants, more students (including international) to get back into classes, and more non-Covid medical procedures to take place. The further easing of state restrictions, such as the removal of mask mandates – a step also taken by Boston recently – will be an added plus for consumer-based industries.

Notwithstanding the solid outlook for consumer spending, we have lowered prospects somewhat to account for the fallout from heightened geopolitical tensions. In particular, the Russia-Ukraine conflict will boost inflation in the near-term and take a bite out of consumer wallets.

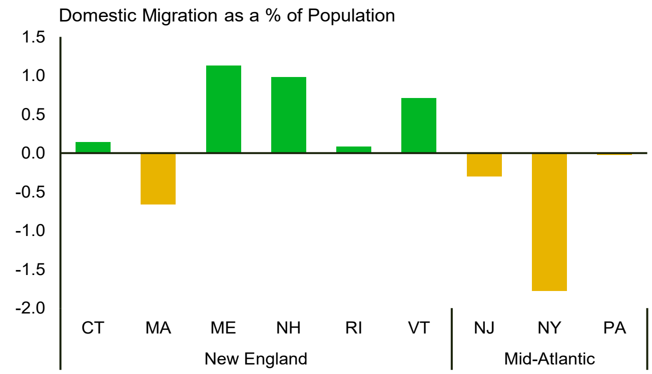
Geopolitical tensions also shine a light on the need to increase energy security and to move toward cleaner sources of energy. Massachusetts has had some positive developments on this front. Iberdrola (electric utility company) recently

Chart 2: Massachusetts Labor Market Recovery Trails Behind the Nation



Source: BLS, TD Economics.

Chart 3: Maine, N.H. and Vermont Have Had Some Success in Attracting Domestic Migrants



Note: Data from 2021. Source: Census Bureau, TD Economics.

committed to invest $10B in the development of three offshore wind complexes in the state. Besides the long-term benefits, these projects are also poised to create some 4,000 jobs during the five-year construction phase. On this front, Iberdrola recently broke ground on its Vineyard Wind One project, the country's first large-scale offshore wind farm off the coast of Martha's Vineyard.

Continued strength in new economy industries, such as tech and biopharma, will help ensure that as the state transitions to a slower-growth phase this year, it remains at the top of the regional leaderboard. Professional and tech is the state's best-performing jobs sector, with payrolls up 6.4% from the pre-pandemic period. Ongoing expansions from familiar tech giants, such as Amazon and Meta, together with positive developments in the life sciences space – i.e., a $700M commitment by Eli Lilly to develop a Genetic Medicine Institute facility in Boston – paint a bright picture.

Maine, N.H., Vermont: Tight labor markets

The tight labor market theme that characterized several of the smaller New England economies in the pre-pandemic period has made a comeback. Maine, with an unemployment rate of 4.1%, still has some slack. Meanwhile, Vermont, where the labor force is still down a dramatic 7.5% from the pre-pandemic level, and New Hampshire (N.H.) are posting jobless rates at the 3% mark. This level of tightness will limit some of the growth potential as the pandemic subsides.

Construction and healthcare are among the industries that will be impacted from a shortage of workers. In the near-term, demand for construction workers will be supported from the need to build more homes amidst low housing inventories, while abundant government infrastructure funding will support momentum further out. Demographic forces remain a tailwind for the healthcare industry, where growth will also likely be fueled by the fading in the pandemic and the resumption of more typical patient inflows. On the flip side, an aging population remains a headwind for businesses looking to boost headcount. Thankfully, all three states have had some success in attracting domestic migrants (Chart 3). And we see further scope for a pickup in immigration in the coming quarters.

With Covid-related health measures being steadily relaxed since the early winter, the growth baton in the tristate region is expected to be passed to high-touch service-based industries, which still have significant room to recover. The opening of the Canadian border to vaccinated travelers is an added plus, especially for Maine and Vermont. The region's ski industry will receive a boost from an expected rebound in visits from overseas travelers. However, amid tight labor markets, employers in these typically lower-paid customer-facing industries will likely need to shell out higher wages.

Other industries poised to offer support over the forecast period include manufacturing and tech. All three states have exposure on defense-related manufacturing and should see a windfall from a renewed focus on defense spending. Vermont's GlobalFoundries will continue to benefit from rising demand for semiconductors, while Maine's BIW (shipbuilder) still has a rich supply pipeline and is poised to hire 500 workers a year to replenish retirements and keep up with demand. In addition, the fact that several N.H. companies (i.e., BAE Systems, L3 Harris, Methuen Construction) have won large defense-related contracts recently marks a positive development for the Granite State. Boasting a sizable exposure to high-tech and biotech industries, a more favorable tax environment and slightly faster population growth relative to its neighbors, the Granite state is well-positioned to lead the New England trio in terms of growth over the next few years.

Middle Atlantic (NJ, NY, PA)

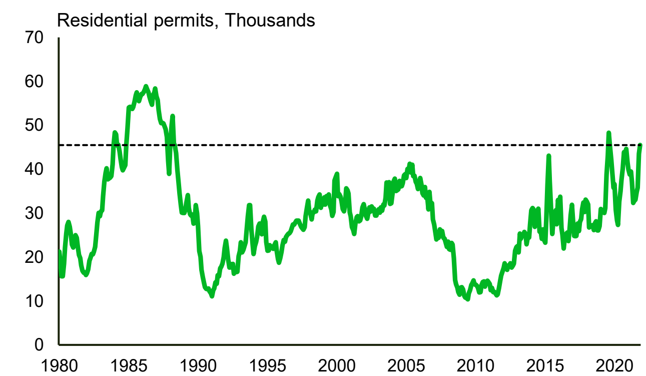
New Jersey: Open for Business

New Jersey's employment recovery lags slightly behind the U.S., but continues to best that of neighboring New York and Pennsylvania. The state's unemployment rate has ground lower in recent months, falling to 5.2%. The downward trajectory of the unemployment rate is in part the result of above-average job growth, which outperformed the U.S. pace for much of last year.

The Omicron infection wave took a toll on activity at the turn of the year, but with the public health emergency declared over in early-March, New Jersey is now wide open for business. This will be a boon for consumer-related activities, with benefits to accrue to areas highly exposed to leisure & hospitality and tourism. Atlantic City is a case in point. Investments at several AC casinos, such as a $100M makeover of Bally's and $400M improvements at Caesars, show that executives are betting on a revival in the gambling business.

Elevated inflation and a higher interest rate environment will nonetheless limit some of the near-term upside to growth in consumer-related industries, with the state's housing market poised to feel the pinch. Home price growth in New Jersey is still running at a hot 15% y/y pace. This is a result of a tight market, with the number of homes for sale down 34% (y/y) at the star of the year. However, tight conditions are also incentivizing more homebuilding, with permitting activity near its highest levels since the 1980s (Chart 4). A combination of higher rates and more supply are expected to lead to a deceleration in home price growth over the next few years. As residential construction cools over the forecast horizon, infrastructure developments, buoyed by plenty of federal funding, will help pick up the slack.

Chart 4: New Jersey Housing Permits near the Highest Level since the 1980s



Note: Seasonally adjusted annual rate, 3-month moving average.
Source: Census Bureau, TD Economics. Last observation: January 2022.

The professional and business services sector has been large jobs contributor over the past year, accounting for almost 20% of total net new jobs in the state. Progress in the sector is set to continue – a narrative supported by several positive developments in the space, including the high value-added tech subsector. A coveted tech accelerator program, HAX by venture capital firm SOSV, is setting up a $50M HQ facility in Newark. The program is poised to help tens of companies over the next few years and has the potential to create 2,500 jobs. Meanwhile, the partnership between Virtua Health and Rowan University in the creation of a new medical college marks an exciting development in both the education and healthcare space.

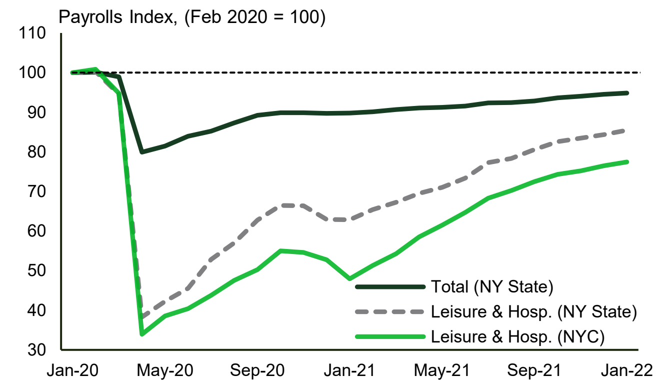
New York: Restrictive no more

The Empire State economy made decent headway over the past year. However, progress was interrupted by infection waves, most recently Omicron, which led to a soft start to 2022. Fortunately, the public health backdrop has improved markedly since January. This allowed the state to remove its 'mask-or-vax' mandate in early February, with New York City (NYC) following suit a month later by removing its mask and vaccination mandates for many indoor activities. This easing in restrictions should pave the way for a strong bounce-back in activity this spring.

First in line for an improvement are services-based consumer industries. Eased restrictions will help attract more domestic and international tourists to the Big Apple, helping revive its leisure and hospitality sector, whose jobs recovery still shows the most bruising (Chart 5). Early signs also show some improvement in the back-to-office movement, with office occupancy in NYC recently ticking back up above 30% as per Kastle Systems data. While a quick return to pre-pandemic level is not in the cards, this will be an added boon for businesses such as bars, restaurants, and dry cleaners.

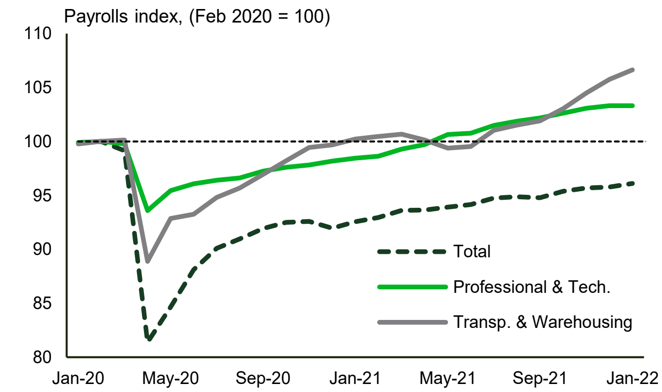
Sectors such as professional & businesses services and information, have been important job contributors over the past twelve months, accounting for a fifth of all new jobs. The outlook for these new economy industries remains upbeat over the medium term. This narrative is bolstered, among other things, by ongoing expansions among tech heavyweights (i.e., Google, Meta), which snapped up more real estate in NYC during the pandemic, and a startup scene nurtured by abundant venture capital funding. Government programs, such as NYC's Summer Youth Employment Program, which has been expanded and will now reach 100k young people, will also lend a hand to the city's

Chart 5: New York's Leisure & Hospitality Sector Still Shows a Lot Bruising



Source: BLS, TD Economics.

Chart 6: Professional and Tech., Second-best Performing Jobs Sector in Pennsylvania



Source: BLS, TD Economics.

recovery. Growing optimism among CEO's in upstate New York – 55% plan capital investments and 44% plan to increase employment according to a recent survey – add to the encouragement.

While we're anticipating a year of solid growth ahead, the outlook is not free of clouds. Soaring energy and food prices will put a damper on discretionary incomes and spending in the coming months. Moreover, finding workers amid a growing demand backdrop will be no easy task. New York's population has been shrinking, due in large part to rising outmigration, and the labor force are still down 5% from its pre-pandemic level. The easing of pandemic restrictions and the resumption of more typical immigration flows will go some way towards enriching the labor pool in the quarters ahead.

Pennsylvania: Challenges and Opportunities

The re-opening of Keystone's economy on falling infections and hospitalizations will help breathe new life into a number of beleaguered service industries. Healthcare is an example, with the industry poised to benefit from the resumption of more normal patient flows as well as significant capacity-improving investments over the last few years. Finding workers however, is proving to be a challenge with hospitals reporting hiring difficulties. The Alleghany Health Network, for instance, has 1,200 nurse openings, more than three times as many as a year ago. Recent legislation that will direct $225M from the American Rescue Plan toward medical staff retention and recruitment will lend a hand. But, with the labor market poised to tighten further in the quarters ahead, labor shortages will persist.

The state's leisure & hospitality industry, whose jobs recovery remains furthest behind (-12% from pre-pandemic level) will also reap the benefits from an improved epidemiological backdrop and the expected shift in spending toward services. The easing of pandemic restrictions, such as the lifting of the vaccine mandate for indoor dining in Philadelphia recently, will be an added fillip. On the flip side, prospects for further declines in real wages and higher interest rates will cut into near-term spending and limit some of the growth upside.

The Russia-Ukraine conflict threatens to deliver yet more global inflationary pressures as well as supply chain disruptions. This may pose difficulties for the state's manufacturing industry, which in recent months has fared well amid a string of new expansions and investments. Conversely, Pennsylvania's outsized energy sector stands to benefit from an elevated energy price environment, which ought to provide some important counterbalance. Rig counts have been on the rise recently in response to a more favorable price environment. Looking beyond the near-term, Europe's diversification away from Russian gas may also open up new opportunities for the state, with Pennsylvania's access to the eastern seaboard a competitive advantage. However, long-term investments in the sector (i.e., expanding pipeline capacity) will have to be weighed against the strategic shift toward renewable energy.

Pennsylvania's thriving technology sector, which helped cushion the pandemic's blow, should continue to offer support. Payrolls in the professional & technology sector are up over 3% from the pre-pandemic period, the second-best turnout after transportation (Chart 6). Positive developments in the space, such as in Philly's biotech scene, which include the recent entry of Achilles Therapeutics and Spark Therapeutics' $575M gene therapy innovation center, offer additional encouragement.

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

Delaware: Reducing Bureaucracy to Build Economic Competitiveness

The First State kicked off the New Year with 7,100 jobs added relative to the start of the previous year (1.7% y/y). The state has now recouped almost 80% of the jobs lost at the height of the pandemic (February 2020). The leisure and hospitality sector was the big winner in terms of job creation, with 3,500 jobs added over the year while the Health and Education sectors are still struggling with job losses (Chart 7). As of January, the unemployment rate stood at 4.8%, down from 5.7% a year earlier. Still, there remains further ground to be made up to arrive back at the jobless rates of less than 4% pre-Covid.

Unlike the situation in many other states, the appreciation of home prices in Delaware has started to come off recent highs. Price growth remained brisk in January at 15.7%, but that was somewhat less heated than the 19.1% recorded nationally and over 20% in other states.

The state's General Assembly is developing legislation which would fast track the approval process for economic development projects. The intent of the bill is to reduce bureaucratic red tape which has hindered growth in Delaware's business sector and stymied competitiveness. With limited ability to offer financial incentives to lure new employers to the First State, leaders are hoping that a more streamlined and business friendly approval process, will present a more welcoming climate, giving the state an edge in attracting new businesses.

Other initiatives are also in the works to improve the business climate and give the First State a competitive edge. The government is working to implement a worker-funded state-run family leave program. The current lack of one places Delaware at a disadvantage when competing for workers against states like New Jersey that have a program.

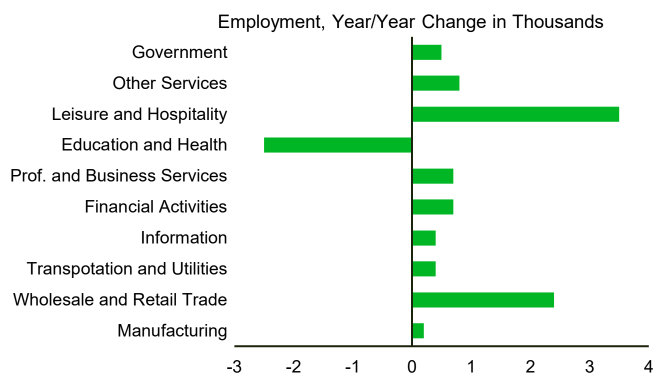
As the state moves towards post-pandemic normalization, Governor Carney has lifted the state's school mask mandate as well as the most recent state of emergency, essentially eliminating the last of the restrictions that have held back activity since late 2021. While the erosion of purchasing power due to multi-decade high inflation and recent declines in sentiment will weigh on near-term growth, we still anticipate a healthy post-Omicron bounce in activity through the spring.

D.C.-Maryland-Virginia: Housing Supply Crunch

The housing market in the capital region continues to cool as demand decelerates further. In January, year-over-year home prices in D.C., Maryland and Virginia rose by 3.8%, 10.9% and 11.2% respectively – comfortably below the national pace of 19.1% and slower than in previous months. The pullback in demand is partly due to limited supply. The lack of inventory is especially evident in Virginia where the number of homes available for sale (0.95 months) dipped below one month's supply for the first time ever. For perspective, five to six months of supply is usually indicative of a balanced market. Total active listings in the Commonwealth dropped to 12,203 at end-January – a notable 27% decline from January of the previous year (Chart 8).

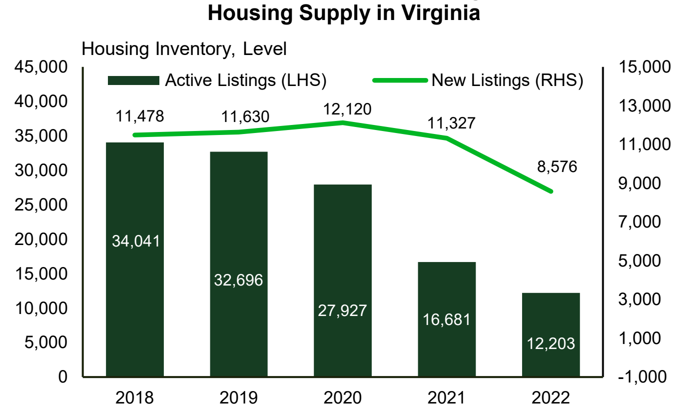
A number of high-profile expansions will have significant knock-on effects to growth in areas such as construction, real estate and logistics. Amazon is growing its footprint

Chart 7: Tourism Employment in Delaware Makes Strides While Social Services Retreat



Note: Data for January 2022.
Source: Bureau of Labor Statistics, TD Economics.

Chart 8: Record Drop in Active Listings, Squeeze Housing Supply in Virginia



Note: Listings at end-January in each year.
Source: Virginia REALTORS, TD Economics.

with the establishment of a one million-square-foot fulfillment center in Augusta County, Virginia. The project is expected to be completed in 2023 and add 500 jobs to the almost 30,000 that the company already has in the state. In Maryland, BMW and real estate firm Tradepoint Atlantic have partnered with the Port of Baltimore to create a 35-acre vehicle distribution hub that will add jobs and ease supply chain issues at the port. The hub will be able to process up to 100,000 vehicles per year and double BMW's current facility near the port.

On the fiscal side, Maryland's Governor Hogan is implementing the largest tax relief package in the state's history, providing more than $4.6 billion in tax relief to a broad swath of the population, including families, small businesses and retirees, as well as increasing the state's Rainy-Day Fund. The Governor is also seeking to expand tax incentives to new and existing manufacturers that locate or expand in the state, creating new jobs in the process. Additionally, as part of a $480 million supplementary budget for FY2023, the Governor is proposing larger investments in Maryland's first responders, economic development in rural areas, and programs to assists homeowners and renters across the state.

There were steady increases in employment across the board. January's payrolls were up 4.9% y/y in D.C., 2.9% in Maryland and 2.3% in Virginia (relative to 4.7% nationally). Though still above pre-pandemic levels, unemployment rates also continued to fall across the region, coming in at 6.3%, 5.4% and 3.3% in D.C., Maryland and Virginia, respectively (4% nationally).

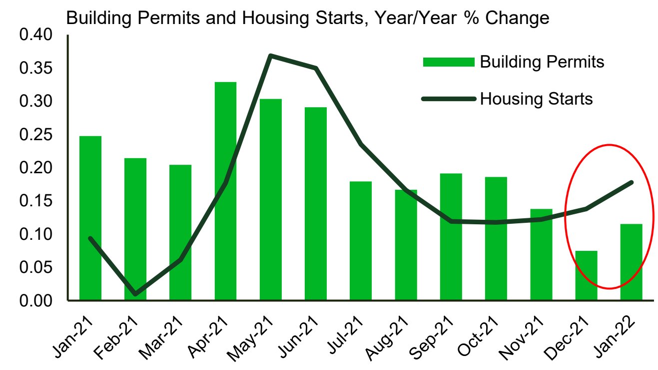
Overall, activity in the capital region has remained steady despite unprecedented challenges. With solid prospects for greater business activity underpinned by local government and state support, growth is expected to run at an above trend rate through the forecast period.

North Carolina: A Place to Call Home

Labor market activity in North Carolina was robust at the start of the year. In January, the number of unemployed fell 4.6% m/m, pushing down the unemployment rate to 3.9% from 4.1% the previous month. The rate now sits just 0.3 percentage points above its pre-pandemic level.

The Tar Heel state continues to be a magnet for business investment. Numerous announcements of projects to come on stream include a 1.3 million-square-foot Amazon distribution center, a manufacturing and assembly plant for

Chart 9: Building Permits and Housing Starts Tick up as Builders Respond to Surging Demand in North Carolina



Note: 3-month moving average.
Source: Census Bureau, TD Economics.

Aviation company, Boom Supersonic and a biopharmaceutical manufacturing plant for Eli Lilly. Just these three projects are expected to yield over $1.6 billion in business investment and almost 3,000 new jobs in the coming years.

Housing supply has come under significant pressure as the constant flow of new and expanding businesses has contributed to growing net migration into the state. The inability of supply to keep pace with demand caused home prices to surge to all-time highs. As of January, home prices grew by 22.7% year-over-year. Growth of North Carolina's home prices has outstripped the national rate since October 2018. The divergence has picked up speed since the summer of last year and now stands at 3.6 percentage points (ppts) relative to the long-term average of about 1 ppts. In some high-demand counties, such as Wake, the price pressures are even more severe (up 28.9% y/y).

In response to the notable surge in prices, more and more developers are seeking opportunities to expand the housing stock in the state, resulting in an uptick of both building permits and housing starts (Chart 9). Of note, a Raleigh developer is planning a mixed-use housing community in Lillington, Harnett County while Toll Brothers builders have filed a request for the construction of over 600 single-family detached homes in Rolesville, Wake County. There are other such development projects in the works. While current labor and raw material shortages may pose problems, attempts to address the housing supply shortage are headed in a positive direction.

With business investments poised to spur economic activity and create jobs, the economic outlook for the Tar Heel State remains upbeat. Real economic growth is projected to hit 4.3% in 2022, decelerating to 2.6% in 2023 notwithstanding notable risks to the forecast.

Lower South Atlantic (SC, FL)

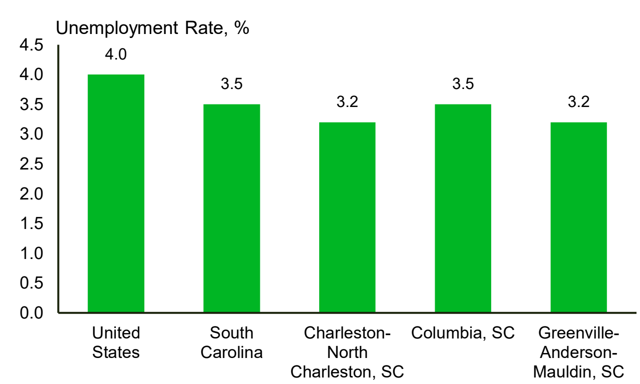
South Carolina: Caught in the Crossfire

The Palmetto State's economic fortunes to start the year have been caught in the crosscurrents of supply chain bottlenecks and the Russian-Ukraine war. The Port of Charleston temporarily placed restrictions on the acceptance of outbound container cargo as it struggled with a shortage of terminal space due to trade being diverted from congested West Coast ports. In February, the port also faced a record backlog of more than 30 container ships anchored outside its harbor waiting for berth spaces to become available. To help speed processing of the backlog, port administrators extended hours of operations and opened on Sundays for a limited time. Even so, it could take to the end of the quarter before the backlog is fully cleared.

New supply-chain turmoil was also triggered for a major manufacturer in the state, Boeing, due to Russia's invasion of Ukraine. The aircraft manufacturer sources about a third of its titanium from Russia. However, recent sanctions against the country have placed those supply relationships on ice. Boeing ceased purchases from Russia, while closing offices in the country and halting deliveries of spare parts for Russian planes. While Boeing notes that it has sufficient stockpiles to prevent disruptions to airplane production, finding new suppliers involves a validation process that could take over a year. Any interruptions to production activity in the state is likely to weigh on economic output.

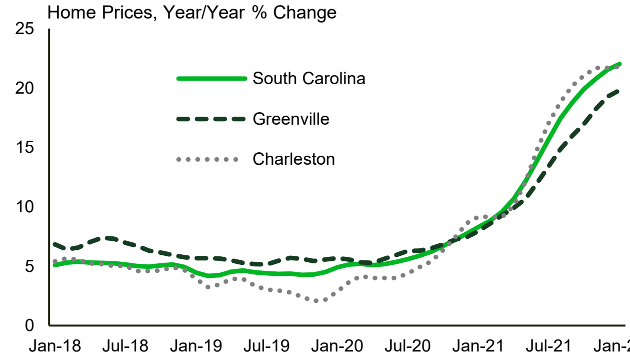
Meanwhile another large manufacturer in South Carolina, BMW, has announced plans to expand activity. The automaker will invest more than $200 million to build a new 219,000-square-foot press shop to produce steel parts for its vehicles. Construction is already underway and comes on the heels of a recent announcement of another $100 million expansion by the company in the city of Greer. Biotechnology company MycoWorks is also slated to invest $107 million to establish operations in the state and create up to 400 jobs.

Chart 10: Unemployment Rate in South Carolina and Its Metros Track below National



Source: Bureau of Labor Statistics, TD Economics.
Data for January 2022, Metros Not Seasonally Adjusted.

Chart 11: Some of South Carolina's Largest Counties Post Dramatic Home Price Increases



Note: Seasonally adjusted, 3-month moving average.
Source: CoreLogic, TD Economics.

The labor market saw solid gains in January with 10,000 jobs added to non-farm employment over the month. The unemployment rate also edged down 0.1 ppts to 3.5% (0.5 ppts below national), with major metros in the state posting even lower rates (Chart 10).

On the housing front, prices continue to rise at a breathtaking pace. Year-over-year prices grew by 22.3% in January, above the 19.1% national rate. Near-zero inventory coupled with still relatively strong demand supported prices in some of the major counties (Chart 11). Activity in the market is likely benefitting from buyers rushing to secure purchases before interest rates rise. We anticipate a moderation going forward as the Fed tightens.

The legislature is hoping to implement a $2 billion income tax and rebate bill. The bill would give everyone who files a tax return a rebate of between $100 to $700. The bill also proposes a significant cut in the state's top income tax rate from 7% to 5.7%. Separately, Governor McMaster proposed a $40 million increase in yearly spending to boost the salary of law enforcement professionals.

The outlook for the Palmetto State faces both headwinds and tailwinds. While dislocations resulting from Russia's invasion of Ukraine could negatively affect major manufacturers in the state, fiscal policy has sufficient flexibility to cushion the fallout and support consumer spending. All told, South Carolina is expected to post growth of 3.1% this year, with a deceleration to 2.5% in 2023.

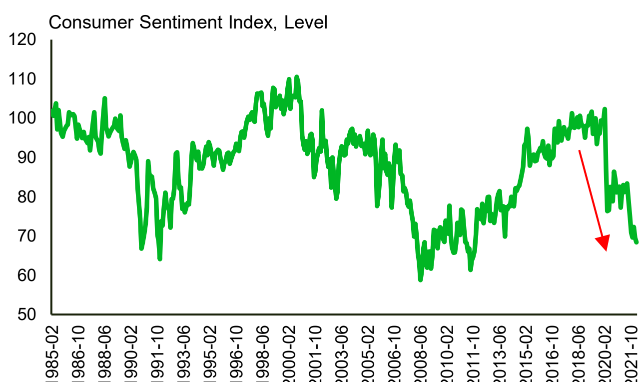
Florida: Consumers Glum but Businesses Forge Ahead

Consumer sentiment in the Sunshine State slumped to a 10-year low as soaring prices – from gas to homes – and prospects for higher interest rates weigh on spending and cloud the outlook (Chart 12). Supply chain bottlenecks and the war in Ukraine also topped the list of concerns among households. But while spending momentum is likely to cool from last year's robust pace, we don't anticipate it being derailed amid some of the strongest employment conditions on record.

Meantime, a consistent ramp-up in applications for new businesses in the state continue to paint a bright picture. From January 2021 through January 2022, over 680 thousand applications for new businesses were filed in Florida – roughly 3,200 applications per 100,000 persons – with Florida ranking fourth among all states (Chart 13). Both people and businesses flocked to the state during the pandemic, resulting in notable population gains. The state added more than 200,000 new residents last year, second only to Texas, which drew 310,000 migrants. Florida, however, had both the largest net domestic migration and net international migration, with the overall population base expanding by 1.0%.

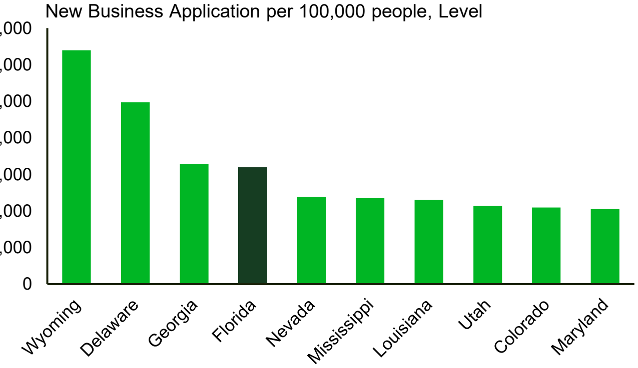
With the rise in population, the housing market in Florida remains white-hot, with year-on-year increases in January accelerating to 28%, about 9 percentage points faster than the national rate. The labor market also continues to make strides, with over 25 thousand jobs added over the month in January. The unemployment rate held steady at 3.5%.

Chart 12: Consumer Sentiment Falls in Florida to the Lowest Level in a Decade



Source: University of Florida, TD Economics. Last observation: February 2022.

Chart 13: Florida Ranks Fourth in the Nation for New Business Applications



Note: Data for the period January 2021 to January 2022.
Source: U.S. Census Bureau, TD Economics.

The usual boon from spring training baseball activity in the state, is likely to be muted again this year, as the recently resolved labor standoff between players and owners resulted in a delayed start to the season. The season will also be much more condensed than its usual six weeks. Spring training in Florida, which spans across 12 cities, is estimated to generate an annual economic impact of over $680 million. The delayed start to the season has already impacted local businesses which count on increased activity during the period to drive annual sales.

In a bid to increase activity at Florida's ports, Governor DeSantis and leaders from the Florida Ports Council embarked on several marketing ventures to lure shipping companies to the state. Florida's ports do not currently face levels of congestion that have plagued other ports. These efforts bore fruit as the shipping company Sea Lead Shipping announced it would move part of its operations from Port of Long Beach, California to JAXPORT in Florida. Other ports in the state also reported y/y double digit increases in cargo volume for the first quarter of the year as cargo normally destined for other ports diverted to the Sunshine State.

In the state's budget for FY2022/23 set to commence July first, Governor DeSantis allocated $10.4 billion for Florida's transportation infrastructure which should help to double cargo capacity at the ports. As in other states, lawmakers are seeking to cushion the blow of rising prices for taxpayers by proposing various tax relief measures. The bill currently before the legislator has been dubbed the single-largest tax cut package in Florida's history and would extend may of Florida's popular tax holidays while also reducing taxes.

States	Real GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (average, %)			Home Prices (% Chg.)			Population (% Chg.)		
	2021	**2022F**	**2023F**	**2021**	**2022F**	**2023F**	**2021**	**2022F**	**2023F**	**2021**	**2022F**	**2023F**	**2021**	**2022F**	**2023F**
National	**5.7**	**3.2**	**2.5**	**2.8**	**3.8**	**1.5**	**5.4**	**3.6**	**3.5**	**14.9**	**11.1**	**3.5**	**0.2**	**0.3**	**0.5**
New England	**5.7**	**3.3**	**2.5**	**3.5**	**3.7**	**1.6**	**5.5**	**3.5**	**2.9**	**14.7**	**8.2**	**3.0**	**-0.1**	**0.2**	**0.2**
Connecticut	4.2	3.1	2.1	2.8	3.2	1.5	6.3	4.4	3.5	15.6	7.5	3.0	0.1	0.1	0.1
Massachusetts	6.4	3.5	2.7	3.8	4.2	1.7	5.8	3.5	2.6	12.7	7.6	3.1	-0.5	0.1	0.2
Maine	5.1	3.0	2.2	3.8	3.3	1.4	4.6	3.3	2.8	15.9	8.2	2.6	0.7	0.5	0.3
New Hampshire	8.3	3.3	2.5	3.7	3.7	1.6	3.5	2.4	2.2	17.9	10.2	3.4	0.8	0.6	0.5
Rhode Island	5.4	2.9	2.1	4.0	3.2	1.4	5.7	3.6	3.5	18.0	8.9	3.0	-0.1	0.0	0.0
Vermont	3.3	3.0	2.3	2.4	3.4	1.6	3.5	2.6	2.5	17.2	10.9	2.6	0.5	0.2	0.1
Middle Atlantic	**4.8**	**3.3**	**2.5**	**3.0**	**4.0**	**1.7**	**6.7**	**4.3**	**3.8**	**10.1**	**7.6**	**3.0**	**-0.8**	**-0.2**	**0.0**
New Jersey	4.8	3.0	2.5	4.3	3.7	1.5	6.4	4.2	3.4	13.5	9.3	2.8	-0.1	0.0	0.1
New York	5.0	3.4	2.6	2.7	4.2	1.9	7.0	4.3	3.9	7.7	6.3	3.0	-1.6	-0.4	-0.1
Pennsylvania	4.4	3.5	2.4	2.6	3.8	1.6	6.4	4.2	3.8	12.2	8.6	3.1	-0.2	-0.1	0.0
Upper South Atlantic	**4.5**	**3.3**	**2.5**	**2.8**	**3.5**	**1.6**	**4.9**	**3.6**	**3.2**	**13.0**	**8.9**	**3.9**	**0.3**	**0.4**	**0.6**
District of Columbia	2.7	2.5	2.5	-0.4	4.8	1.8	6.7	5.4	4.9	4.9	4.2	4.1	-2.9	-1.1	-0.1
Delaware	3.4	2.4	1.9	2.0	3.7	1.9	5.4	4.1	3.4	14.8	9.2	3.8	1.2	1.1	1.0
Maryland	3.2	2.4	2.4	2.5	2.8	1.4	5.8	4.0	3.0	11.3	7.1	3.7	-0.1	0.1	0.2
North Carolina	6.7	4.3	2.6	4.2	3.8	1.5	4.8	3.5	3.4	17.2	13.4	4.2	0.9	1.0	1.0
Virginia	3.9	3.4	2.5	2.2	3.5	1.5	3.9	2.9	2.5	11.3	6.5	3.9	0.1	0.3	0.5
West Virginia	3.9	2.2	2.5	1.7	2.1	1.7	5.1	4.4	4.5	12.2	7.6	2.5	-0.4	-0.3	-0.4
Lower South Atlantic	**6.1**	**3.5**	**2.8**	**4.1**	**4.2**	**1.8**	**4.3**	**3.1**	**3.0**	**17.2**	**16.6**	**4.9**	**0.9**	**1.1**	**1.1**
Florida	6.5	3.8	3.0	4.6	4.6	2.0	4.6	3.1	3.0	18.0	18.0	4.7	1.0	1.2	1.3
Georgia	5.5	3.2	2.5	3.7	3.8	1.5	3.9	3.1	3.3	15.6	14.6	5.7	0.7	0.8	0.9
South Carolina	5.6	3.1	2.5	3.1	3.4	1.6	4.0	3.1	2.6	16.1	12.9	4.0	1.2	1.1	1.1

TD State Forecasts

Source: BEA, BLS, Census Bureau, CoreLogic, TD Economics. Forecasts by TD Economics as at March 2022.

Disclaimer