TD Economics

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

September 21, 2023

New England

- New England's economy has continued to see improvement in recent months, although clear signs of slowing are beginning to materialize. Hiring has cooled in most states in the region in recent months, and we expect that the unemployment rate will rise gradually this year as the pace of economic growth slows to 1.6% in 2023 and 1.1% in 2024. Home price growth is also expected to moderate over the coming months, although tight supply conditions are expected to keep price declines in 2024 below the national average.

Middle Atlantic

- Economic growth has eased in the Middle Atlantic, as a slowdown in New York weighs on the region. Real GDP growth is expected to decelerate to 1.5% this year, below the national average as the region's outsized white collar sector cools. Slowing aggregate demand is expected to put upward pressure on the unemployment rate as the pace of hiring cools. This is expected to weigh on the housing market in 2024, where after a resilient performance this year prices are expected to decline.

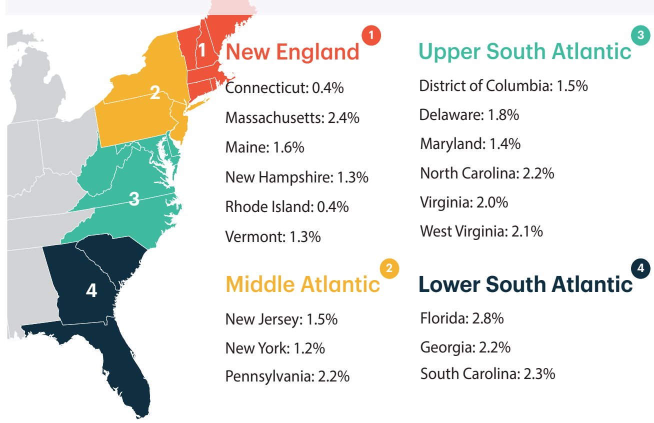
Upper South Atlantic

- Economic growth in the Upper South Atlantic looks to have held up this year, with our forecast calling for an expansion of 1.9%. However, growth is expected to shift into lower gear in line with the nation, easing to 1.4% in 2024. A return to student loan payments is a near-term hurdle, with D.C. and Maryland more exposed on this front. Labor markets have remained relatively tight so far, except for in D.C., but are forecast to loosen as employment growth slows next year. North Carolina is anticipated to continue leading the region with economic growth of 2.2% this year and 1.6% next.

Lower South Atlantic

- The Lower South Atlantic's growth edge along the eastern seaboard is expected to be maintained over the next couple of years, even as its economies slow under the weight of higher interest rates. Above-average population growth is expected to provide support to consumption. Hiring in the region has trended down recently, reflecting a deceleration in South Carolina and Georgia, but Florida bucked the trend with job gains gathering speed over the summer. Labor demand across the region remains strong relative to the national trend, and hiring likely has a bit more gas left in the tank. All told, we anticipate the region to post growth of 2.6% this year and 1.5% in 2024.

Real GDP by State Forecast (2023)



Source: TD Economics. Forecast as of September 2023.

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

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

Connecticut: Interest Rate Sensitivity Weighs on Growth

Connecticut's economy has continued to expand in 2023, albeit at a very modest pace. The state's large manufacturing sector has shown clear signs of cooling in line with global weakness in manufacturing and the financial services sector continues to contract – in-line with its long-run trend. We expect that real GDP growth will moderate over the coming year to 0.4% in 2023, before rising modestly to 0.6% in 2024 and rebounding further to 1.4% in 2025.

Despite modest economic growth, house prices in Connecticut have outpaced national growth since the start of the year, but more recently it has begun to converge. Homebuilding activity finally rose above pre-pandemic levels during the first half of this year, but it will take some time to have a material impact on supply in the housing market. At the same time, resale listings remain low as higher rates keep homeowners locked into their lower mortgages. We expect that housing prices in Connecticut will rise by 6.9% in 2023 and 2.7% in 2024 as supply challenges remain persistent.

Job growth in Connecticut has roughly tracked the national average in recent months and the state is now close to its pre-pandemic level of employment. The unemployment rate has ticked steadily downward and now sits at 3.6% - on par with the national average. The primary concern for the labor market in Connecticut continues to be the shrinking labor force. Declines have moderated recently, but a shrinking labor force is likely weighing on job growth. Shortages are likely to ease, however, the breadth of labor demand has been narrowing, suggesting cooler demand ahead.

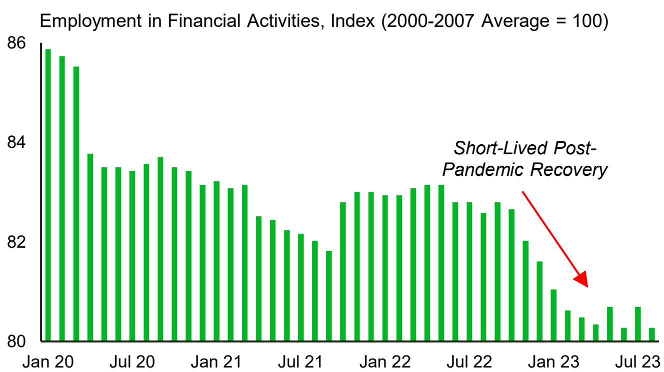
Looking at job trends by industry, manufacturing employment is down 0.9% since the start of the year while construction employment is up 2.3%, with the latter entirely related to an uptick over the summer. These two sectors will likely benefit over the longer-term from recent defense contracts and public infrastructure investments. Connecticut's service sectors have fared slightly better than the goods sector over the past few months, although most of the strength has come from health care, education, and transportation & utilities. The finance sector has resumed its longer-term declining trend (Chart 1). Moving forward, we expect that job growth will continue to moderate, leading the unemployment rate to average 3.8% this year, before rising to 4.2% in 2024.

Massachusetts: Unemployment Rate Hits Record Low

The Bay State economy has outperformed the national average so far this year, aided by its large health care sector and a surprising resilience in white collar hiring. This has been evidenced by the continued outperformance of Boston relative to the state, but this momentum is beginning to moderate. Moving forward, we expect that Massachusetts will see the highest real GDP growth in New England this year at 2.4%, before slowing modestly to 1.5% in 2024.

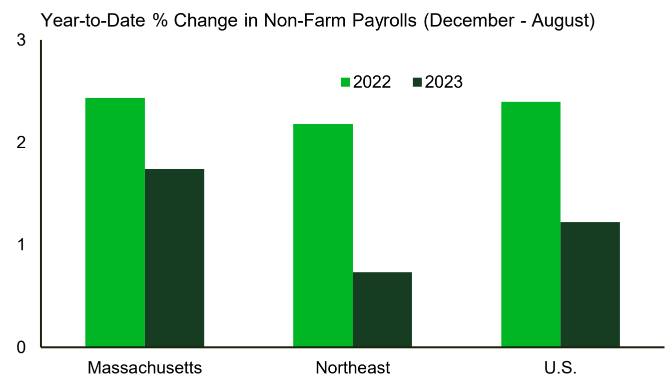
A robust labor market has underlined Massachusetts' economic strength this year, with the unemployment rate falling to a record low of 2.5% in July, before rising slightly to 2.6% in August. Employment growth has been

Chart 1: CT Financial Sector Employment Returns to Long-Run Decline



Last Observation: August 2023. Source: U.S. BLS, TD Economics.

Chart 2: MA Job Growth Cooling, But Continuing to Outperform



Source: U.S. BLS, TD Economics.

the strongest in the Northeast, increasing by 1.7% since the start of the year (Chart 2). Job growth in the state capital has been even stronger at 2.1%, as Boston continues to converge with the state's post-pandemic employment recovery. However, a shrinking labor force poses a challenge to future job growth and is emblematic of broader demographic issues related to an aging workforce and persistent net migration outflows.

Looking at job growth by sector, there are signs that the strength seen at the start of the year is beginning to wane. Important sectors such as construction and leisure & hospitality were previously supporting headline employment growth but have since slowed. In addition, while job growth in the two largest sectors, health care and professional & business services, has remained solid overall, it too is beginning to show signs of slowing. At the same time the manufacturing and financial activities sectors have seen their hiring rates flatline over the past few months. Moving forward we expect that the unemployment rate will rise to 3.0% in 2024 as the aggregate pace of job growth cools.

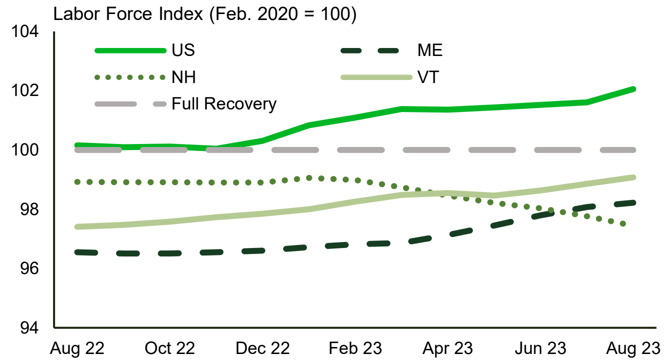
The housing market in the Bay State has seen prices trend upward since the start of the year similar to the country as a whole. This has occurred even though sales activity has seen a relatively sharper drop in Massachusetts year-on-year, likely stemming from the state's comparatively worse affordability challenges. Low supply is the primary factor driving price growth in the state, and this is expected to continue to influence prices into 2024 as homebuilding activity has fallen notably this year. Looking forward, we expect that home prices will rise by 3.4% in 2023 and 1.4% in 2024.

New Hampshire, Maine, Vermont: Labor Shortages Persist

The northern tri-state region of New England saw real GDP growth slightly below the national average during the first quarter of the year. This has likely continued in more recent months as labor market decelerations have been sharper in the northern tri-state than the national average. For 2023 we expect New Hampshire to grow by 1.3%, Maine by 1.6%, and Vermont by 1.3%, before slowing to 0.8%, 0.7%, and 0.7% respectively in 2024.

The lowest unemployment rates in New England can be found in the northern tri-state region, with Maine at 2.5%, and New Hampshire and Vermont at 1.8% - all of which are at or adjacent to record lows. Although this appears to be positive on the surface, labor shortages re-

Chart 3: Labor Force Recovery Picking Up in ME & VT, Falling in NH, But Deficits Remain Notable



Source: U.S. BLS, TD Economics.

main a problem in all three states. For Maine and New Hampshire, abysmal recoveries in labor force participation rates since the pandemic have played a role. In more recent months, Maine and to a lesser extent Vermont have both seen solid labor force growth, but New Hampshire has seen a precipitous drop in its participation rate since January, which has led to a sizeable decline in its labor force (Chart 3). All three states are seeing signs of cooling in their labor markets, with payrolls over the past three months up 0.1% in Maine and down 0.5% in New Hampshire and Vermont. We expect that further cooling will cause the unemployment rate to rise to average 2.5% in Maine, 2.0% in New Hampshire, and 2.2% in Vermont for 2023.

The goods sectors in Maine and Vermont have fared poorly in recent months, with the construction and manufacturing sectors seeing moderate job losses. New Hampshire's goods sectors have done slightly better, with job gains in construction and a recent rebound in manufacturing. However, New Hampshire's service sectors have seen job losses over the past three months (-0.7%). Vermont has also seen moderate job losses in its service sectors (-0.4%), while Maine has seen no growth (0.0%). This is likely in part due to regional flooding in July, but broader trends indicate that the jobs market in the New England tri-state region continues to cool.

The housing market in the tri-state region has seen strong price growth since the start of the year, driven by robust personal income growth and net migration inflows. Supply levels remain constrained, and for 2023, we expect that house prices will finish the year up 7.8% in Maine, 6.9% in New Hampshire, and 7.4% in Vermont.

Middle Atlantic (NJ, NY, PA)

New Jersey: White Collar Slowdown

Economic growth in the Garden State has moderated slightly in recent months as the slowdown in international trade weighs on the logistics sector and firms' cost cutting efforts drive up layoffs in the state's sizeable white-collar sector. However, robust health and education sectors combined with the best labor force recovery in the Northeast are expected to provide tailwinds for longer-term growth. We expect that New Jersey's real GDP will grow by 1.5% in 2023, before slowing to 1.1% in 2024.

New Jersey has seen impressive growth in its labor force so far in 2023, driven by a sizeable increase in labor force participation (+1.4 ppts). However, employment growth has not kept pace. Hiring has slowed in recent months, pushing the unemployment rate up 0.9ppts since the start of this year, roughly three times the national uptick so far this year. We expect that further cooling in hiring will push the unemployment rate to average 4.4% in 2024.

Hiring in New Jersey has been skewed towards health care in 2023, accounting for roughly 44% of all new jobs added. Leisure & hospitality (L&H) and local government have also contributed to headline growth, although L&H has moderated in recent months. Concerningly, the largest employment sector, professional & business services, has seen job losses in six out of the last eight months and job growth in the financial sector has flatlined. As a result, New Jersey's large white-collar sector is faring poorly. On the goods side, jobs in the manufacturing sector have fallen 0.1% over the past six months, as the state's pharmaceutical firms have announced layoffs. In contrast, construction sector job growth has matched the healthy growth seen nationally over the past six months, with previously announced infrastructure spending continuing to support the sector.

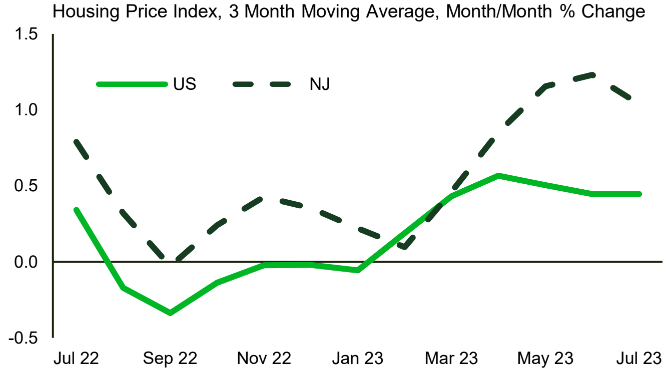
Housing price growth in the Garden State has nearly doubled the national average since the start of the year with most of the outperformance seen over the past few months (Chart 4). Supply levels have improved modestly but remain low and homebuilding activity fell notably during the first half of the year. While affordability challenges remain, solid income growth and constrained supply levels have combined to push prices higher. We expect that prices will rise by 7.0% in 2023, before moderating to 1.5% in 2024 on a softening labor market.

New York: Job Growth Sustained by the Health Care Sector

The largest economy in the Northeast has slowed notably in 2023, as elevated interest rates weigh heavily on the state's high-growth sectors (finance, technology, etc.). A rebound in tourism traffic has helped to boost the leisure & hospitality sector and the non-cyclical health care sector continues to expand, but the economy is clearly showing signs of strain. For 2023 we expect real GDP to grow a modest 1.2%, before slowing to 0.9% in 2024.

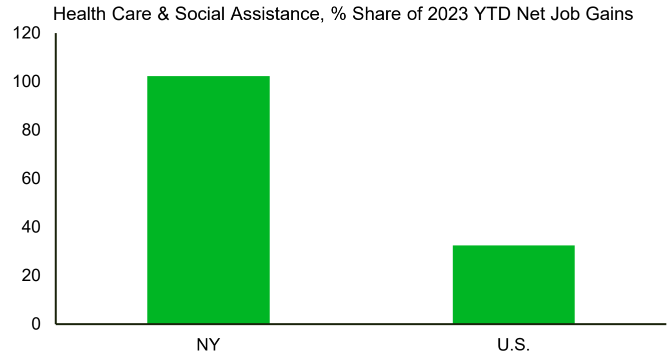
Job gains have been volatile in 2023, but total employment growth since the start of the year has been roughly half the national average. Even so, the unemployment rate remains close to its previous cycle low at 3.9% as layoffs have remained relatively low. Labor force growth continues to be solid, particularly in New York City, although post-pandemic deficits persist. Looking ahead, we expect that the unemployment rate in New York will average 4.0% in

Chart 4: New Jersey Housing Market Strength Has Endured



Source: CoreLogic, TD Economics.

Chart 5: Health Care Has Dominated New York's Job Growth in 2023



Note: Net shares can exceed 100% if other sectors are seeing job losses. Source: U.S. BLS, TD Economics.

2023, before rising to 4.8% in 2024.

The health care sector continues to contribute the lion's share of new jobs in New York, with the sector accounting for 96% of net new jobs over the past three months and all of the net jobs added since the start of the year (Chart 5). This is roughly three times the national average year-to-date contribution for health care, and the deviation primarily reflects the narrowing of hiring to a handful of sectors in New York. This is because jobs losses continue to be seen in the manufacturing and construction sectors, as well as wholesale and retail trade. The state's large white-collar sectors (financial activities, and professional & business services) have seen muted hiring patterns as well. While the leisure & hospitality sector benefitted from the rebound in tourism, it has slowed in recent months. On aggregate, New York's current main job growth drivers are non-cyclical (health, education, and government) as higher rates weigh on the state's economy.

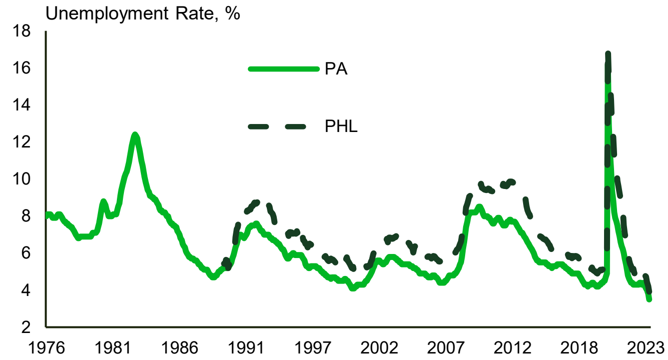
House prices in the Empire State did a 180 -degree turnaround this summer, with the pace of price growth now roughly double the national average. Previous price declines combined with the drop in mortgage rates in early summer provided a catalyst for prices to bounce back. Mortgage rates have risen since, and we expect house prices to rise by a very modest 0.6% this year, before slowing further to 0.1% in 2024.

Pennsylvania: Strong Job Gains Push Unemployment Rate to Record Low

Pennsylvania's economy has tracked closely to the national average for the past year, with solid personal income growth supporting consumption. Employment gains have remained robust and spread widely across industries, with the state's largest service sectors outpacing the national average. Looking ahead, we expect the Keystone State to continue to largely follow the national fortunes, with real GDP growing by 2.2% in 2023, before slowing to 1.1% in 2024.

Year-to-date employment gains in Pennsylvania have marginally bested the national average (1.5% vs. 1.2%), with even stronger gains seen in Philadelphia (+2.5%). This has led to a drawdown in the state's unemployment rate to 3.5% and Philadelphia's to 3.9% in July, both setting record lows (Chart 6). Interestingly, Philadelphia's unemployment rate is currently closer to the state's unemployment rate than it has been since 1990. The record low in unemployment rates is primarily the result of solid job growth, although the recent declines in the labor force have also contributed to the tightness of the labor market. As of July, Pennsylvania's job opening-to-unemployed ratio was roughly equal to the national average (~1.5) and virtually unchanged from the start of the year. We expect that labor market conditions will ease in-step with the nation over the coming months and into 2024, pushing the unemployment rate up to average 4.3% in 2024.

Chart 6: Pennsylvania & Philadelphia Record Low Unemployment



Note: PHL data starts in 1990. Last observation: July 2023. Source: U.S. BLS, TD Economics.

At the industry level, the construction and manufacturing sectors have both experienced a moderate rebound over the past three months, but manufacturing employment is still down 0.4% this year while construction is up 2.0%. The transportation and wholesale trade sectors have also seen near-term strength, in part owing to the recent opening of UPS' fourth largest facility in the U.S., located southeast of Harrisburg. However, like its Mid-Atlantic neighbors, headwinds still face the logistics sector, with FedEx recently announcing 220 layoffs after closing a facility in York. Fortunately for the Keystone State, the strongest employment growth has been seen in its largest employment sectors, with health care, professional & business services, leisure & hospitality, and retail trade all continuing to experience job growth above the national average. These four sectors account for half of all jobs in Pennsylvania, the same as the national average, and have been the primary support to aggregate job growth in the state this year.

The housing market in Pennsylvania continues to be the most affordable in the Northeast region, which has allowed price growth to outpace the national average over the past year (+4.8% vs. +2.5%). Solid growth in employment and incomes has also supported housing demand. Looking forward, we expect this will allow prices to rise by 5.1% in 2023, before falling to 0.9% in 2024.

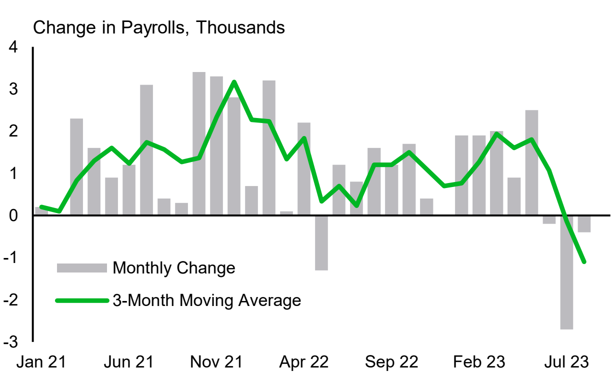
Upper South Atlantic (DC, DE, MD, NC, VA,WV)

Delaware: Summer Lull

Economic growth in Delaware appears to have slowed around midyear, with job growth taking a notable step back over the summer. The economy's running pace is expected to decelerate through the end of this year and into 2024. However, several supportive elements will help provide some buoyancy. These include a still-positive outlook for healthcare demand, some more gas in the tank for tourism activities, and more importantly above-average population growth that will help support consumption. Overall, we expect real GDP growth will slow to 1.8% this year, easing further to 1.3% in 2024.

Job growth outperformed the national pace earlier this year, but an unusually weak summer dragged the trend down. The state experienced job losses in each of the last three months ending in August (Chart 7). The decline was concentrated in the administrative services sector, with smaller-scale pullbacks also recorded in sectors such as transportation, accommodation, and finance. While the anticipated slowdown may appear to be here already, we believe the state's labor market likely has more gas in the tank. Reaffirming this view is the fact that overall demand for labor is still abundant, with job openings as of July up 55% from the pre-pandemic level. This is a much better result than most of its Southeast regional peers and nationally (+27%). Moreover, the positive employment narrative can be matched up with developments on the ground. Examples of firms planning to grow their presence in the state are not hard to come by, with a $170 million investment from Agile Cold Storage that's expected to bring 130 new jobs in Claymont a case in point.

Chart 7: Delaware's Hiring Pace Cooled Swiftly Over the Summer



Source: Bureau of Labor Statistics, TD Economics.

Labor market tightness may be a near-term impediment to stronger growth for many states in the region, but this is likely less of a factor for Delaware. A strong inflow of domestic migrants has been almost entirely responsible for relatively strong population growth over the last two years, and has enabled the state to record above average labor force growth during this period. As a result, Delaware's labor market is a bit looser compared to regional peers. At 4.1%, its jobless rate is a little higher today than at the start of 2020, even as its payrolls expansion has been stronger than the nation's. Domestic migrants are expected to continue to move to the state, boosting housing demand and limiting the downside for home prices. But, by the same token, as growth shifts further into lower gear near year, this inflow will also likely contribute to some expected loosening in the labor market.

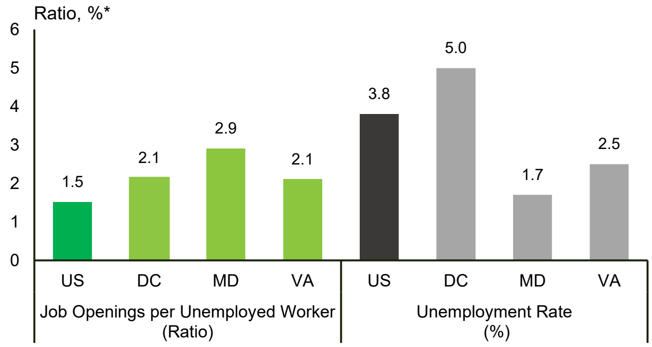
DC-Maryland-Virginia (DMV): More Speedbumps on the Way

The DMV region presents a mixed economic profile, with Virginia (Va.) leading on growth, and Maryland (Md.) and D.C. trailing behind. This dynamic is not expected to change over the medium term. Va. is forecast to grow by 2.0% this year and 1.5% next, with Md. following behind at 1.4% and 1.2%. Meanwhile, growth in D.C. is expected to slow from 1.5% this year to a soft 1.0% next, assuming that a government shutdown can be avoided. The federal government accounts for a quarter of all payrolls in D.C., which typically serves as a source of stability for the region, but a shutdown would be a major near-term negative for the district.

On the employment front, the region's hiring pace continued to trail the nation through July, but strong, broad-based gains in August helped nudge the hiring pace above the U.S. for a change. The Old Dominion (Va.) recovered all jobs lost during the pandemic as of last summer, and has continued to make additional headway. Meanwhile, D.C. and Md. have more catching up to do, with payrolls down respectively 3.4% and 0.7% from February 2020. The region has more gas in the tank, a narrative corroborated by its more favorable balance of job openings to unemployed workers than nationally. This is true even for D.C.'s comparatively looser labor market (Chart 8).

Housing, which was the first to bow down to the increase in financing costs, is still struggling under the higher rate environment. As of July, home sales were down by roughly 20% (y/y) across the trio. Lean inventories continue to keep a floor under home prices, with those in Md. and Va. recording

Chart 8: Ratio of Job Openings to Unemployed Workers Higher Across the DMV



*Ratio is for the month of July; unemployment data is for the month of August.
Source: Bureau of Labor Statistics, TD Economics.

a mild acceleration through early summer. However, an increase in homebuilding that has been observed in other parts of the country remains elusive in the DMV so far, with housing permits holding flat in Md. and trending firmly lower in D.C. and Va.

The resumption of student loan payments is yet another near-term hurdle. The region is overexposed both as a share of population with federal student loans and debt balances. D.C. stands out with federal student loan borrowers making up 18% of the population and debt burdens averaging $54,000 (the average across the 50-state cohort is respectively 13% and a little over $35,000). Having to allocate funds toward interest payments will further sap the strength in consumer spending, an added factor contributing to its underperformance ahead.

North Carolina: Attracting Investments

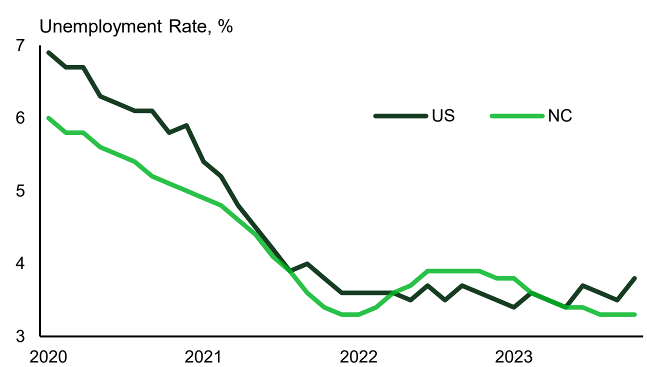
North Carolina's dynamic economy has received some well-deserved recognition by topping CNBC's state business competitiveness rankings for the second year in a row. Recent economic and labor market indicators reaffirm the notion of an economy growing at healthy clip. Job growth accelerated over the summer, surpassing the nation's hiring pace. Meanwhile, the unemployment rate sits near record lows, even as the size of the labor force keeps expanding as more domestic migrants continue to pour into the state (Chart 9). North Carolina has continued to attract plenty of high value-added investments too, some of which will boost demand for labor for years to come. However, the state is not immune to the high interest rate environment. Growth of 2.2% this year is anticipated to ease to a still-healthy 1.6% next year, likely coming in slightly ahead of the nation at 1.3%.

Interest-sensitive sectors of the economy, such as housing, remain under pressure as elsewhere, with home sales in the state down 25% from a year ago. Meanwhile, signs of a slowdown are visible in the tech space, with startup job openings in the Triangle down roughly 60% from last year's lofty levels. Overall job openings have eased too. Nonetheless, as of July there were 1.8 job openings for every unemployed worker – still a better balance than nationally.

Leading investments from VinFast (EV), Toyota (batteries), and Wolfspeed (semiconductors), totaling several billion dollars and thousands of jobs, have been well-publicized. But, the positive theme extends through a myriad of smaller-scale investments. Recent examples include expansions from Honda Aircraft (jet manufacturing), Bosch (power tools), CommScope (fiber-optic cable manufacturing) and John Deere (battery factory). These total over $300 million and will generate roughly 1000 jobs. Firms in the healthcare space are also joining in on the action. Following announced expansions at Eli Lilly and Abzena, ProKidney Corp recently announced it plans to invest $458 million to build a new biomanufacturing facility, creating 330 new jobs in Guilford County.

All of these expansions are likely to continue to attract workers from out of state, even as there are signs that this inflow may be slowing a touch. This will continue to lend a hand to housing demand. Housing affordability in North Carolina deteriorated more than nationally over the pandemic, and the resale market remains tight with a 3.4 months' supply. This provides a setting for 'new' supply to play a role in helping to ease affordability pressures over time. The re-acceleration in housing permits over the summer is encouraging. Nonetheless, with mortgage rates still hovering over 7%, there's likely more hurdles on the way for homebuilding, with the potential for the recent uptrend to be tested sooner than anticipated.

Chart 9: North Carolina's Unemployment Rate Continues To Hold at Post-Pandemic Low of 3.3%



Source: Bureau of Labor Statistics, TD Economics.

Lower South Atlantic (SC, FL)

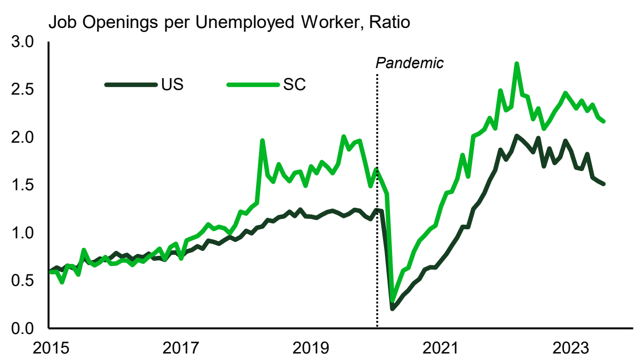
South Carolina: Slower, But Still Decent Growth Ahead

The economic narrative in Palmetto State remains upbeat thanks to a healthy level of business investment and announced expansions, and relatively strong population growth. However, the state economy won't escape the braking force from higher rates. Growth is forecast to ease to 1.5% in 2024 (from 2.3% this year), keeping a slight edge over the nation.

South Carolina's business sector has a very healthy pipeline of ongoing and planned expansions, particularly in manufacturing, which is benefitting from large investments in the electric vehicle (EV) and battery space. Multibillion dollar commitments from firms such as BMW, Envision AESC, Redwood Materials and Scout Motors, are expected to generate thousands of jobs in the years ahead (see recent report on EV production). The positive theme extends to many smaller-scale projects, including announced expansions at Gaffney (bakery products), Leidos (security systems), Flex/Enphase Energy (solar), and Protego (industrial equipment), poised to generate over 1,100 jobs combined.

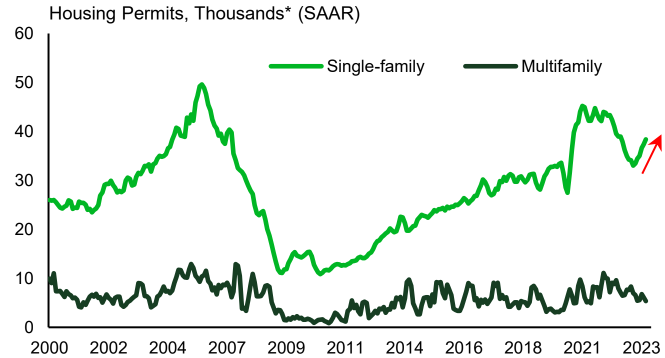
Thankfully, South Carolina's labor force growth has been keeping pace. The state has seen both a continued inflow of domestic migrants and an improvement in labor force participation, which has driven the strongest labor force growth on the East Coast so far this year. Meanwhile, the jobless rate has continued to shrink, falling to a post-pandemic low of 3.0% recently. Looking on the demand side, it too remains quite strong with 2.2 jobs available for every unemployed worker as of early summer, well above the 1.5 jobs nationally (Chart 10). Even so, the pace of hiring has eased recently, falling in line with the national rate over the summer.

Chart 10: S.C.'s Ratio of Job Openings to Unemployed Workers Still Higher Than Nationally



Source: Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, TD Economics.

Chart 11: South Carolina Single-Family Housing Permits Have Been Trending Higher Recently



*3-month moving average. Source: Bureau of Economic Analysis, TD Economics.

The state economy is forecast to cool ahead, given the higher rate environment. On the consumer side, student loan borrowers need to start making payments soon, which could weigh on spending. This will also likely challenge first-time home buyers, who are already facing worse affordability than a few years ago. The housing market continues to struggle, with sales down 10% y/y in August, though this is still better than -18% nationally.

Part of the weak home sales performance has to do with low supply. The market remains tight, with only 2.5 months of inventory – only slightly better than 2.0 months from a year ago. This presents an opportunity for homebuilders, with some already positioning for additional growth ahead. The expansion of Mungo Homes in Richland County is a case in point. The statewide upturn in single-family permits over the last few months is a welcome development (Chart 11). But, given the persistently high mortgage rates, it is unclear if this trend can be sustained in the quarters ahead.

With housing affordability worsening more than average during the pandemic, and the labor market expected to loosen next year, house prices are forecast to underperform. Things may already be moving in that direction. Following a relatively hot spring season, home price growth slowed to a crawl in early summer. Nonetheless, chances of a notable correction are low given a strong inflow of domestic migrants and relatively healthy economic growth backdrop.

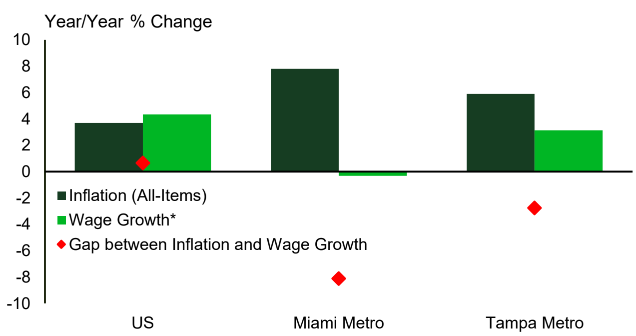
Florida: Small Cracks in Shiny Armor

Florida's economy remains a bright beacon on the East Coast as domestic migrants continue to flock to the state. But, it can't escape the braking force of higher rates, which are expected to cool growth from 2.8% this year to 1.6% next. The state's large tourism sector has some more gas in the tank, but a tougher consumption environment ahead will eventually take a toll on activity. Apart from higher rates, relatively high inflation in some parts of the state that is outpacing wage gains and the resumption of student loan payments are two added headwinds regarding the consumption outlook. Thankfully, Florida is not overexposed on the latter, with federal student loan borrowers making up a below average 12% of the population.

The impact of Florida's impressive growth in recent years has shown up in much higher inflation in two key metro areas for which data is available – Tampa and Miami. Wage growth is not making up the difference, which will weigh on consumers' purchasing power going forward. This is especially evident in the Miami metro, where average hourly earnings are broadly unchanged from a year ago – unlike the strong 6% gain exhibited statewide (Chart 12). Concerns about the cost of living in general and housing costs more specifically remain top of mind, with Florida recording an above average deterioration in housing affordability during the pandemic.

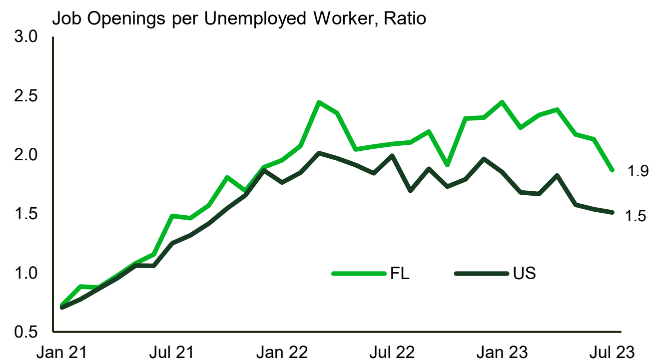
More homebuilding will be necessary to bring affordability closer in line with its historical average. The higher rate environment continues to weigh on existing home sales, which are down 7% y/y – a somewhat better result than the double-digit decline nationally. Investors are cooling on Florida's housing market too, contributing to the weak print, with second quarter activity down heavily in places like Jacksonville (-65% y/y), Orlando (-55%) and Miami (-40%). But, a lack of inventory is nonetheless keeping a floor on prices for now. Single-family homebuilders are responding to the tight conditions. However, permitting activity in the multifamily sector is declining in part due to the large number of units already under construction in many metros, most prominently Miami. The bulk of the supply in Miami is concentrated at the higher end of the market. All factors considered, we continue to anticipate an underperformance in home prices ahead, with prices expected to trek moderately lower over 2024 as the labor market loosens.

Chart 12: Wage Growth in Miami and Tampa Not Keeping Pace With Inflation



*Expressed as the year-over-year percent change, smoothed using a 3-month moving average. Note: Tampa metro inflation is for July, rest is for August.
Source: Bureau of Labor Statistics, TD Economics.

Chart 13: Balance of Job Openings to Unemployed Workers Still Higher in Florida



Source: Bureau of Labor Statistics, TD Economics.

However, as of now the labor market remains on strong footing. Job growth picked up steam over the summer, in contrast to the national trend. The jobless rate remains near a record low, and the 'quits' rate continues to trend just under 3%, above the 2.3% rate nationally in July. This suggests that Floridians are still more confident in seeking out new employment opportunities. This is because there are still plenty of jobs across the Sunshine State. While job openings have eased recently, as of July, there were still close to two jobs per unemployed worker – a better balance than 1.5 jobs nationally (Chart 13).

A tight labor market means that a lack of workers remains a key near-term concern. The new state law that may restrict the participation of undocumented immigrants in the labor market may exacerbate the issue. Anecdotal evidence points to some fallout for sectors such as agriculture and construction, which tend to have a larger share of undocumented workers. So far though, it is hard to discern this impact looking at headline employment data, with the labor force continuing to grow and the participation rate trekking higher over the summer.

States	Real GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (Average, %)			Home Prices (% Chg.)			Population (% Chg.)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
National	**2.3**	**1.3**	**1.7**	**2.3**	**0.4**	**0.3**	**3.6**	**4.2**	**4.2**	**-1.4**	**0.3**	**-0.7**	**0.5**	**0.5**	**0.5**
New England	**1.6**	**1.1**	**1.7**	**1.8**	**0.1**	**0.3**	**3.0**	**3.3**	**3.5**	**5.2**	**1.6**	**0.5**	**0.1**	**0.2**	**0.2**
Connecticut	0.4	0.6	1.4	1.4	0.0	0.2	3.8	4.2	4.3	6.9	2.7	0.3	0.2	0.2	0.1
Massachusetts	2.4	1.5	2.0	2.5	0.5	0.4	2.9	3.0	3.3	3.4	1.4	0.6	-0.1	0.1	0.2
Maine	1.6	0.7	1.2	1.1	-0.2	0.3	2.5	3.0	3.2	7.8	1.2	0.2	0.8	0.4	0.2
New Hampshire	1.3	0.8	1.5	1.9	-0.4	0.2	2.0	2.4	2.9	6.9	2.2	0.1	0.6	0.5	0.4
Rhode Island	0.4	0.6	1.8	0.0	-0.9	0.3	3.0	3.7	4.1	5.9	1.0	0.8	-0.1	0.0	0.1
Vermont	1.3	0.7	1.4	1.3	-0.5	0.2	2.2	2.7	3.0	7.4	1.3	0.3	0.1	0.0	0.0
Middle Atlantic	**1.5**	**1.0**	**1.8**	**1.9**	**-0.1**	**0.5**	**3.9**	**4.5**	**4.6**	**3.3**	**0.6**	**0.4**	**-0.2**	**0.0**	**0.2**
New Jersey	1.5	1.1	1.8	2.0	0.3	0.4	3.7	4.4	4.5	7.0	1.5	-0.3	0.2	0.3	0.3
New York	1.2	0.9	1.9	1.6	-0.4	0.7	4.0	4.8	4.8	0.6	0.1	1.3	-0.5	-0.2	0.2
Pennsylvania	2.2	1.1	1.7	2.3	0.1	0.3	3.9	4.3	4.6	5.1	0.9	-0.4	-0.1	0.0	0.1
Upper South Atlantic	**1.9**	**1.4**	**1.8**	**1.9**	**0.4**	**0.5**	**3.1**	**3.8**	**4.1**	**4.2**	**-1.5**	**-1.4**	**0.7**	**0.7**	**0.8**
District of Columbia	1.5	1.0	1.6	1.4	0.1	0.2	5.0	5.8	5.9	0.5	-2.3	-0.2	0.3	0.1	0.1
Delaware	1.8	1.3	1.8	2.4	0.2	0.4	4.3	4.9	4.8	5.4	-1.1	-1.3	1.1	1.0	0.8
Maryland	1.4	1.2	1.7	1.2	0.2	0.3	2.3	3.0	3.6	3.5	-1.3	-1.2	0.2	0.4	0.5
North Carolina	2.2	1.6	2.1	2.5	0.6	0.6	3.5	4.1	4.3	5.3	-1.9	-1.8	1.2	1.2	1.2
Virginia	2.0	1.5	1.8	1.9	0.5	0.5	2.9	3.5	3.7	3.7	-1.1	-1.3	0.5	0.6	0.7
West Virginia	2.1	0.7	1.1	0.7	0.2	0.1	3.5	4.3	4.7	3.5	-1.4	-0.8	-0.4	-0.4	-0.4
Lower South Atlantic	**2.6**	**1.5**	**1.9**	**2.9**	**0.5**	**0.9**	**3.0**	**3.8**	**4.1**	**5.6**	**-2.1**	**-1.7**	**1.4**	**1.4**	**1.3**
Florida	2.8	1.6	2.0	3.3	0.7	1.0	2.7	3.6	4.0	5.4	-2.3	-2.1	1.6	1.5	1.5
Georgia	2.2	1.3	1.8	2.2	0.3	0.7	3.3	4.1	4.5	5.8	-1.8	-1.6	1.1	1.1	1.1
South Carolina	2.3	1.5	1.9	2.5	0.5	0.7	3.2	3.7	4.1	6.0	-2.5	-0.5	1.3	1.2	1.2

TD State Forecasts

F: Forecast by TD Economics, September 2023. Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, CoreLogic, TD Economics.