U.S. QUARTERLY STATE FORECAST

TD Economics

September 20, 2012

New England

- New England's economy is expected to just fall short of the national growth rate this year. Growth in the region is expected to expand 2.1% this year with Massachusetts and New Hampshire leading the way. Although a weaker 2013 is expected, medium-term growth prospects are generally positive hinging on three key industries.

Middle Atlantic

- Growth in the Middle Atlantic will match the nation this year as strength in New York compensates for limited progress in New Jersey. Regulatory changes and Budget Control Act cuts will result in a deceleration of two key regional drivers – finance & insurance and professional & business services – leading the region to underperform in 2013.

Upper South Atlantic

- Economic growth in the Upper South Atlantic will outpace the nation in 2012. However, the gap will close in 2013 as decelerating manufacturing activity and federal spending cuts drag on the region's largest economies.

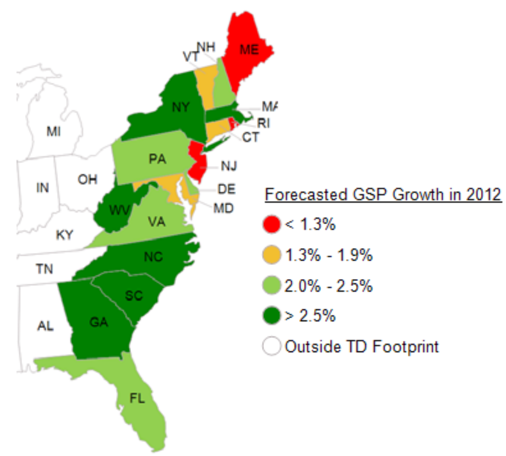
Lower South Atlantic

- Improving housing demand has led us to upgrade our 2012 growth profile for the three states of the Lower South Atlantic (LSA). We now expect economic growth across Florida, Georgia, and South Carolina to average 2.5% in 2012, outpacing projected national growth of 2.1%.

U.S. Macro Themes

- Real GDP is expected to grow by 2.2% in 2012 and 2.0% in 2013, leading the unemployment rate to average 8.2% this year and 7.9% in 2013. For overview, see here.
- Fiscal drag is expected to cut 1.5 percentage points from growth, mostly in the first half of the year.
- In 2014, pent-up demand for housing, autos, and business investment is expected to push growth to 3.2%.
- The Federal Reserve's recent policy announcement will provide support to the economic recovery, but monetary policy works with a lag and is up against strong global headwinds and fiscal drag.

2012 REAL GROSS STATE PRODUCT FORECAST



*Forecast as of September 2012
Source: TD Economics

TD State Forecasts

	Gross State Product (%)			Employment Growth ('000s)			Unemployment Rate (average, %)			Housing Starts (units, '000s)			Home Price Growth (%)*		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
National	**2.2**	**2.0**	**3.2**	**1,800**	**1,675**	**2,625**	**8.2**	**7.9**	**7.2**	**741**	**876**	**1,140**	**1.5**	**1.7**	**3.0**
New England	2.1	1.6	2.8	47	41	85	7.0	6.8	6.1	21	26	35	-1.3	-0.3	1.3
Middle Atlantic	2.2	1.2	1.8	190	127	194	8.7	8.5	7.9	56	59	70	-0.2	0.7	2.1
Upper South Atlantic	2.3	2.0	3.1	130	162	261	7.6	7.5	6.8	88	104	136	1.8	3.2	4.1
Lower South Atlantic	2.5	2.5	3.9	125	266	401	9.1	9.0	8.3	91	115	163	5.4	5.4	5.1

*Based on FHFA purchase-only home price index. Forecasts by TD Economics as of September 2012.

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NEW ENGLAND

New England's economy is expected to expand by 2.1% this year, or just short of the national growth rate, after having matched the nation last year. Relative to our June forecast the current outlook is slightly improved for this year and somewhat toned down for next year, but the regional story is not much changed. Massachusetts is leading growth this year due to extraordinary strength in professional & business services, as well as durable goods manufacturing. Durables will also drive robust growth in New Hampshire while Connecticut will get some support from non-durable manufacturing and, to a lesser extent, finance & insurance. But, forthcoming Budget Control Act (BCA) related cuts are expected to negatively impact professional & business services, as well as manufacturing which is already slowing as global demand falters. With little support from housing and trade, the New England economy remains vulnerable and is projected to decelerate to 1.6% next year before re-bounding to 2.8% in 2014.

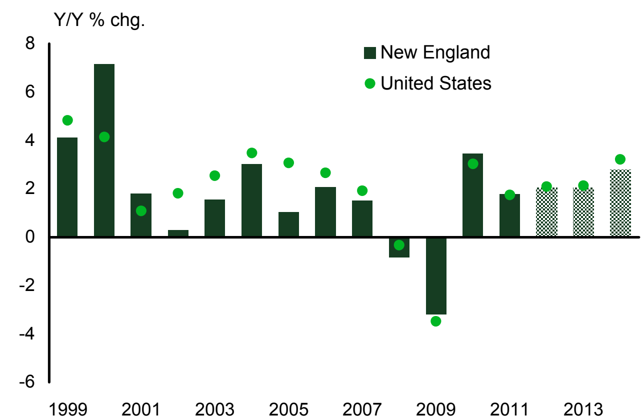
Housing peeks its head above water

The improvement in domestic construction activity has not bypassed New England. Housing starts are up about 24% year-to-date through July, led by a 42% surge in the multiples segment. But, the increases have not been evenly distributed, with Massachusetts and Connecticut accounting for nearly all of the region's gains, advancing by over 30% each. Maine starts are up 13% year-to-date through July, but the remainder of New England is largely unchanged. There is still a long way to go to close the gap from pre-recession levels, with starts in Massachusetts and Connecticut less than half their level in 2006. Also, construction employ-ment remains largely unchanged following the 30% drop experienced during the recession. The housing market is definitely a glass half full, half empty story. While construc-tion is expected to contribute positively, however slightly, to the regional economy this year for the first time since 2001, it will be offset by a negative contribution from the other housing-related industry: real estate & leasing. Activity in this latter category has been improving in some areas but much of the region remains stagnant with prices only recently beginning to show improvement. Moreover, half the states in the region are seeing their seriously delinquent mortgage inventory rise with only New Hampshire and Mas-sachusetts seeing real improvement on this front.

Exports hinder manufacturing

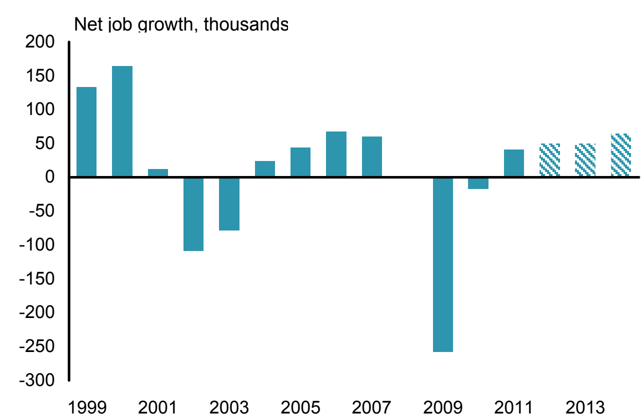
Durable-goods manufacturing has been a pillar of strength for the region, contributing one-third of all post-recessionary New England growth. It will also contribute to growth this year, although less than previously thought, as the sector slowed sharply in recent months following soft-

NEW ENGLAND GSP



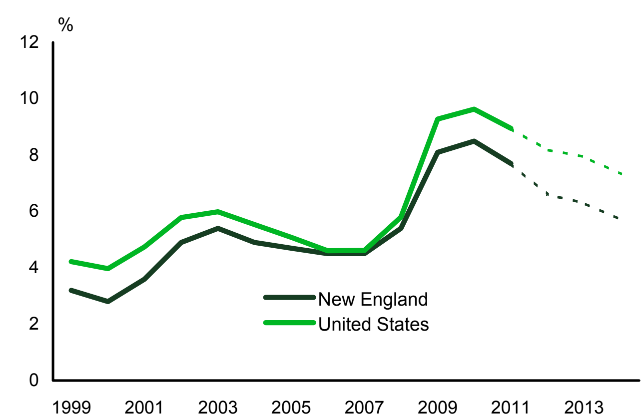
Forecast by TD Economics as of September 2012
Source: TD Economics, Bureau of Economic Analysis

NEW ENGLAND EMPLOYMENT



Forecast by TD Economics as of September 2012
Source: TD Economics, Bureau of Labor Statistics

NEW ENGLAND UNEMPLOYMENT RATE



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Source: TD Economics, Bureau of Labor Statistics

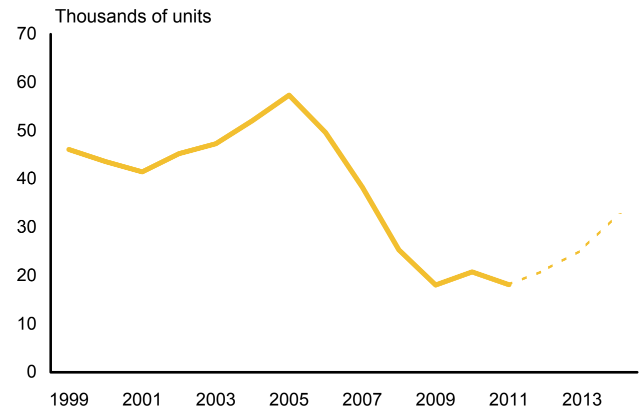
ening exports. New England exporters are relatively more exposed to European demand which has already manifested itself in four months of double digit export declines through July. Slowing global growth will adversely impact the entire region, but especially New Hampshire and Massachusetts. Exports should improve next year as Europe exits its shallow recession, but demand will remain on soft footing with the manufacturing sector facing additional downside risk from cuts related to the Budget Control Act.

Professional & technical services to lead growth

The BCA cuts will also be a headwind for the professional & business services sector, which has created more than half of all of the jobs in the region over the past twelve months. Most of the gains have been concentrated in the Bay State's professional, scientific & technical services sector, which has already exceeded the pre-recession employment level by nearly 4%. Venture capital activity, while still below its pre-recession peak, continues on an upward trend with anecdotal evidence from the Federal Reserve's Beige Book suggesting considerable momentum in the sector. Recently, this strength appears to be spreading to the smaller Maine and Vermont sectors but it is not yet clear whether this trend will persist.

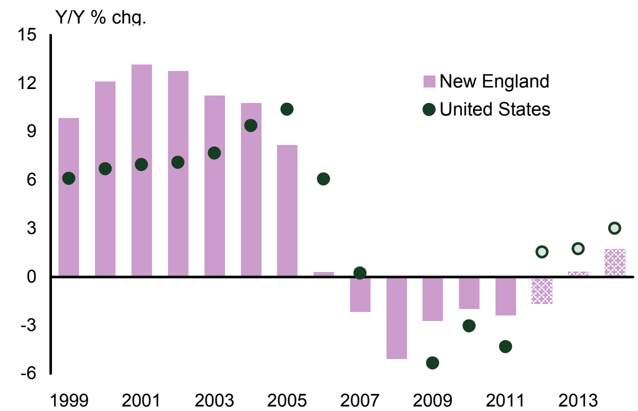
All told, the region is slated for somewhat slower growth than the nation in 2013 due to its negligible population growth and largely non-existent housing sector contribution. Most of the growth hinges on durable manufacturing, professional & business services, and finance & insurance. However, all three sectors face risks regarding the severity of the global slowdown, magnitude of BCA cuts, and consequences of financial industry regulation. Risks over which, the states will have little control.

NEW ENGLAND HOUSING STARTS



Forecast by TD Economics as of September 2012
Source: TD Economics, Census Bureau

NEW ENGLAND HOME PRICES



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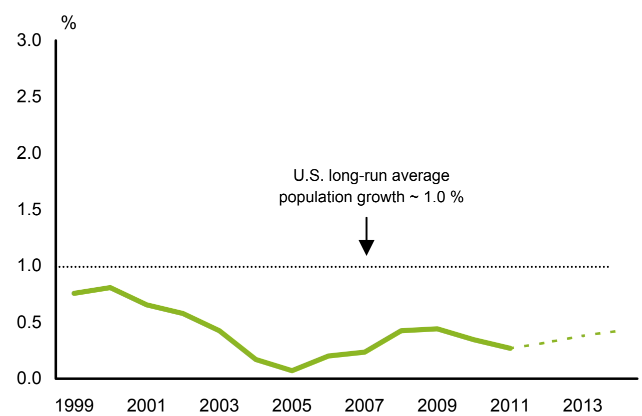
Source: TD Economics, FHFA

NEW ENGLAND POPULATION GROWTH



Forecast by TD Economics as of September 2012
Source: TD Economics, Census Bureau

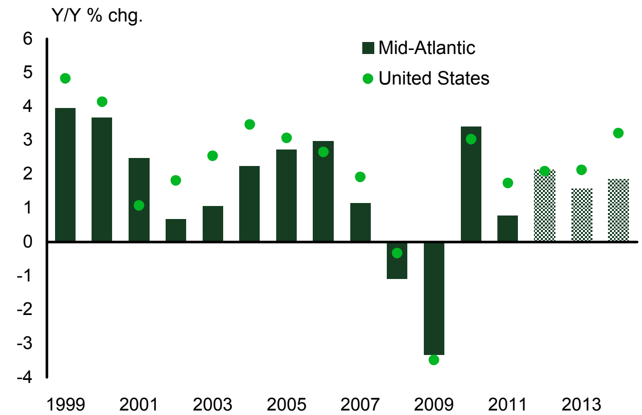
MIDDLE ATLANTIC

The Middle Atlantic economy is on track to match the nation this year, growing by 2.2%. However, the good news won't last. We expect the region to sharply underperform the US in 2013, with growth of just 1.2%, or more downbeat than our June forecast. All three states are expected to experience weaker growth next year with the slowdown most apparent in Pennsylvania and New York. However, it is New Jersey that will remain the regional laggard in 2013. Growth in the Mid-Atlantic is expected to reach 1.8% in 2014 with all three regional economies largely converging.

Empire State growth tied to finance

Fortunes of the New York State economy are undeniably linked to the financial industry, with nearly one-third of state economic growth in the last two decades due to gains in finance & insurance (FI). So it is no surprise that the state economy slowed to just 1.1% last year, as the FI industry decelerated to a third of its average pace of 5.5% due to Europe-related financial market malaise. And while the European crisis is far from being solved, New York's finance & insurance industry prospects appear much improved this year. Employment is up 1.8% y/y year-to-date through July, while extended mass layoffs have retreated to near record lows. In the securities sub-industry, total underwriting activity is up nearly 7% year-to-date through July, while other issuance increased over 20% in the same period. Growth this year will also be strongly aided by professional & business services which have been adding jobs by an average of 4.9% y/y. As a result, real GSP is projected to grow by 2.7% this year. The story for next year, however, is less upbeat. New York's economy is projected to slow to 1.4% in 2013. Regulatory changes in the industry will likely impact earnings and employment in finance & insurance, while cuts related to the Budget Control Act will lower demand at government contractors in the professional & services sector. Offsetting this somewhat will be the real estate sector, which will be less of a drag on the economy. Employment in the sector is up a healthy 2.5% y/y. Although home prices showed no life in the first five months of this year, they finally perked through the summer, with pent-up demand pushing up against current for sale inventory in some areas. However, due a judicial foreclosure process that is the slowest in the country – lasting an average 445 days – the low existing for sale inventory does not reflect potential supply. Seriously delinquent mortgage share in the state has bucked the declining nationwide trend, rising to 9.5% last quarter. This keeps a lingering cloud over the state housing market and should limit house price appreciation going forward.

MID-ATLANTIC GSP



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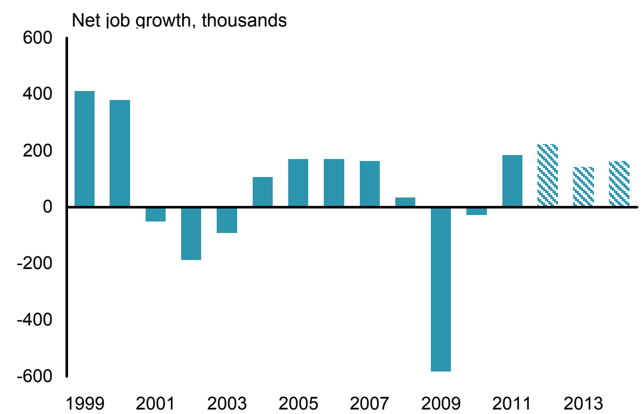
MID-ATLANTIC EMPLOYMENT



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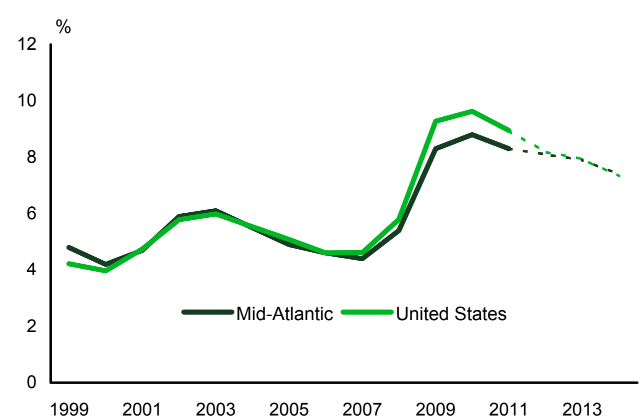
MID-ATLANTIC UNEMPLOYMENT RATE



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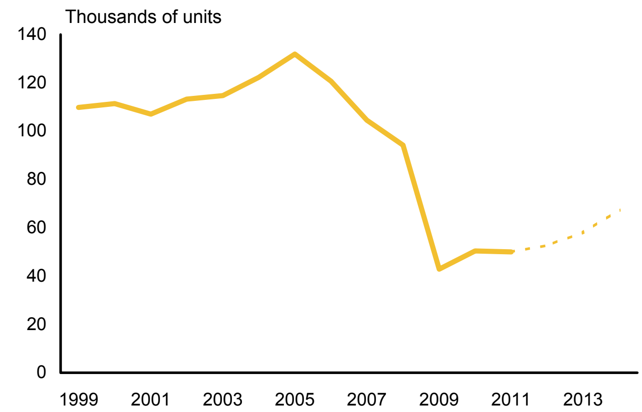
Real estate hinders progress in the Garden State

The real estate sector, which single-handedly caused a contraction in the Garden State's economy last year is wielding a heavy hand again in 2012. If not for the decline in the real estate & leasing sector in 2011, the economy would have grown by 0.8% rather than contracting by 0.5%. The impact will not be as dire in 2012 and 2013, but will continue to hinder growth in contrast to the experience in most other states. House prices in New Jersey have continued to decline, albeit at a decelerating pace. Only a handful of counties across the state are experiencing rising home prices, ranging from Hudson and Union in the north, through central counties of Mercer and Ocean, to Cumberland in the south. But overall prices remain under pressure given New Jersey's long foreclosure process – currently fourth-slowest in the nation, averaging 270 days – resulting in the seriously delinquent pipeline swelling to 13% of mortgages. With recent research suggesting that lengthy delinquency-to-foreclosure processes negatively impact home prices, we expect Garden State prices to post only marginal gains next year. With little to no support from finance & insurance and declines in manufacturing, New Jersey's growth will remain muted, averaging 1.2% and 0.9% this year and next, respectively. With employment still 5% below its pre-recession peak and the unemployment rate recently exceeding its Great Recession level, the Jersey comeback will remain a slow grind.

Slowing durables and austere state budget to take toll

Growth in Pennsylvania this year should average 2.0% supported by durables and some improvement in finance & insurance and trade. Additional contribution will be provided by the mining sector, which has doubled employment over the last three years and continues to add jobs at a 20% y/y pace. While only 1% of the economy, it will account for 5% of the growth this year, before decelerating next year as low natural gas prices limit new drilling activity across the state's Marcellus shale formation. Growth will also be undermined by an austere state budget, which cut state & local government payrolls as well as jobs in the health & education sectors. Additionally, the broadening global slowdown has affected the Commonwealth's robustly growing durable sector. Exports, which expanded by 15% through 2011, are now declining by over 9% y/y in July, with the Philadelphia Fed manufacturing index in negative territory since May. All these factors will lead the state's economy to slow to just 1.1% next year before accelerating to 1.9% in 2014 as external conditions improve. Medium-term prospects are also brighter on rebounding construction activity. Lastly, the state may see longer-run benefits in its non-durable manufacturing sector as low natural gas prices and high-concentration of ethane in the Marcellus shale play leads to sizeable investment in ethylene-crackers.

MID-ATLANTIC HOUSING STARTS



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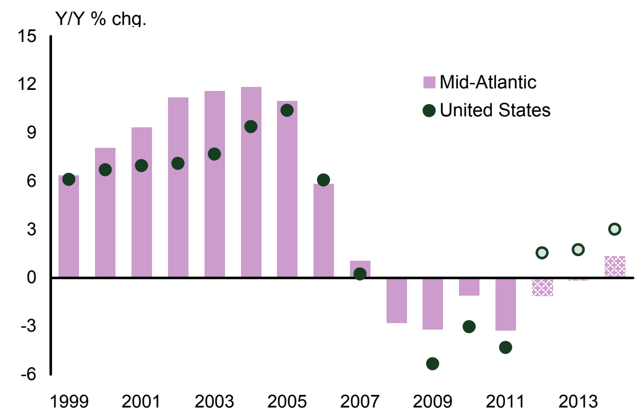
MID-ATLANTIC HOME PRICES



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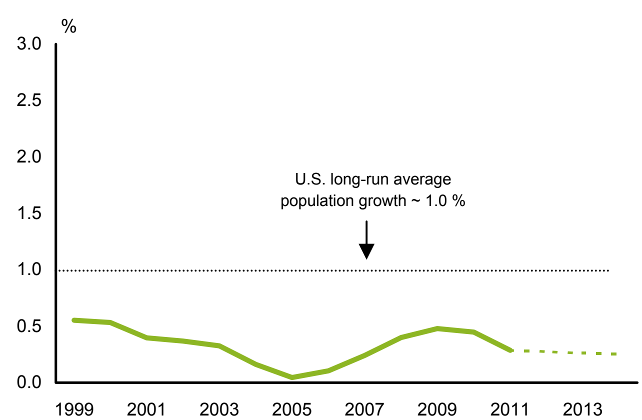
MID-ATLANTIC POPULATION GROWTH



Forecast by TD Economics as of September 2012
Source: TD Economics, Census Bureau

UPPER SOUTH ATLANTIC

Economic growth in the Upper South Atlantic will outpace the nation in 2012. However, the gap will close in 2013 as decelerating manufacturing activity and federal spending cuts drag on the region's largest economies.

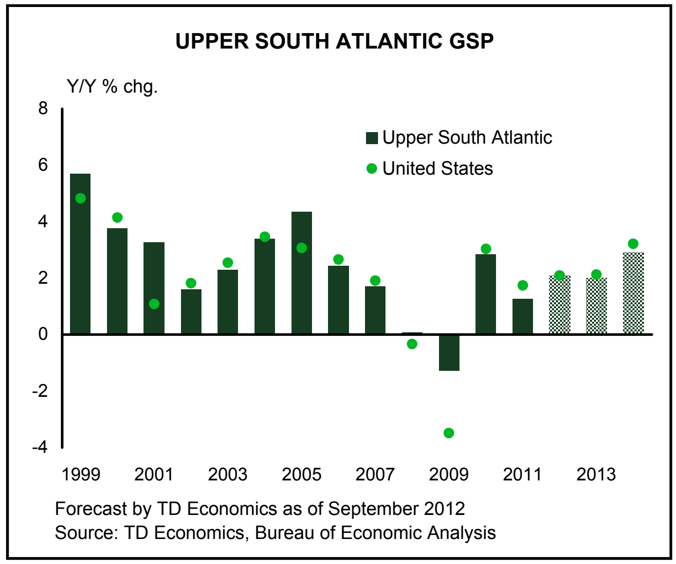
Manufacturing has buoyed North Carolina's economy so far this year. But with nationwide manufacturing activity on the wane, North Carolina's economy is showing signs of slowing. An index of leading indicators tracked by the Philadelphia Fed recently turned negative, foreshadowing an easing in state economic activity over the next six months. Employment growth has been flat on a three-month moving average basis. The unemployment rate, at 9.6%, is tied with South Carolina for the fifth highest in the nation.

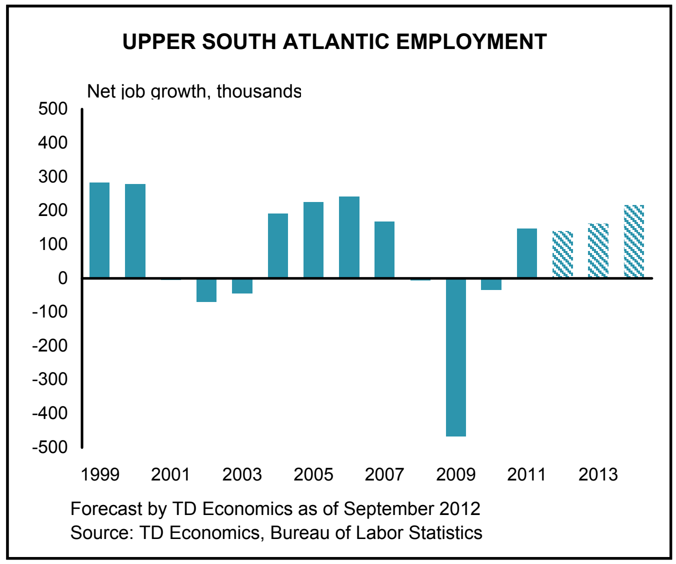
Despite these negative developments, North Carolina's economy will likely turn in an above-average performance in 2013. Even as manufacturing slows, growth in financial, professional, and business services will keep the state's economy humming. Charlotte's burgeoning financial center is second only to New York City, and the Raleigh-Durham area boasts a large clustering of biotech firms, as well as other high-tech enterprises. Both cities attract a high concentration of skilled workers that boost productivity and wages, creating positive spillovers to the state economy. In fact, 28% percent of adults living in the Raleigh-Cary metropolitan statistical area (MSA) hold a bachelor's degree – the most of any other MSA in the nation.

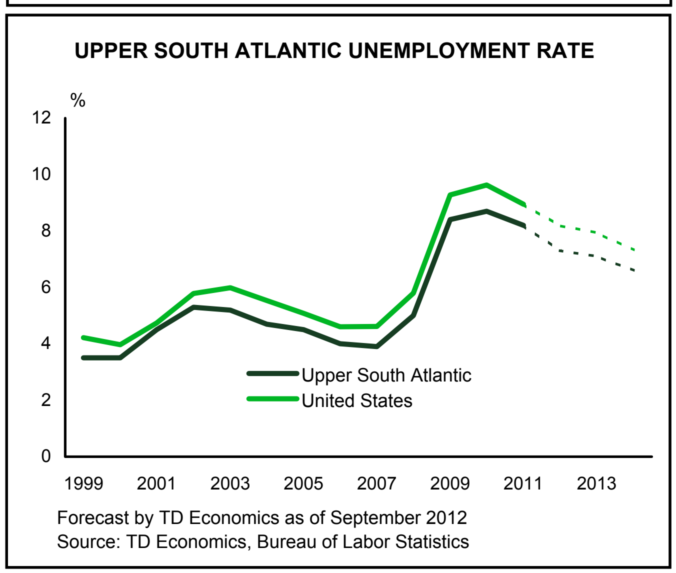
Housing will also make a positive contribution to growth in 2013. Statewide prices were up 1.3% y/y in July, but the biggest gains so far have been concentrated in a handful of counties outside the Charlotte metro area. Prices are still declining in many urban areas. Fortunately, the state is less burdened by foreclosure inventory, and the share of seriously delinquent mortgages continues to fall, especially in the subprime sector. This lays the groundwork for stronger price appreciation to take hold next year, which in turn will support increased construction and real estate activity.

To the north, economic growth in Virginia looks to outpace the national economy in 2012. The state is benefiting from relatively strong income growth, which in turn has fueled a modest expansion of consumer credit, bucking the national trend. However, with nearly 14% of Virginia's annual economic output coming from federal defense contracts, impending cutbacks will likely knock growth down below 2% in 2013.

Northern Virginia is in a better position to weather shrinking government transfers. Of the handful of counties where median per capita income is 110% of the state median, most are within commuting distance of D.C. The area also boasts the lowest unemployment rate in the state at 4.7%.





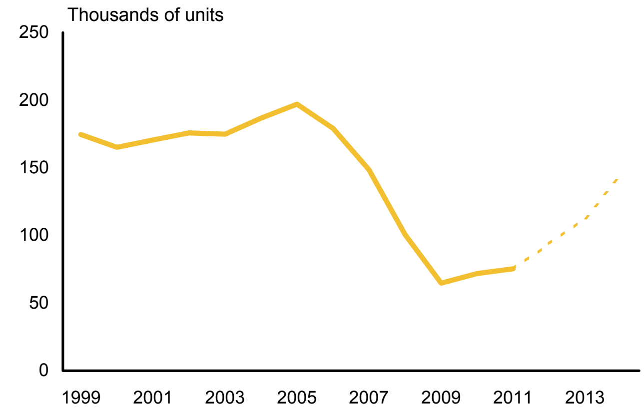


Property values are over 25% higher here than elsewhere in Virginia, and have been growing since early 2010.

By contrast, Newport News and Norfolk to the southeast are large military towns. To the extent that military cutbacks are felt more here then elsewhere, their economies are less well-positioned to cushion the blow. The unemployment rate in the Virginia Beach-Norfolk MSA currently stands at 6.4% -- lower than the national average but among the highest in Virginia. Home prices have only barely begun to grow again. With the exception of Virginia Beach, per capita incomes in the area are substantially less than the state median.

Across the Potomac, Maryland's economy will feel the impact of federal cutbacks in 2013 as well. Like Virginia, federal defense is an outsized contributor to state economic activity. Yet, unlike Virginia, Maryland is already turning in a weak economic performance this year. The state has lost 6.6K jobs since January, over half of them from state and local government. We forecast Maryland will average 28K new jobs in 2012, but most of these gains have already occurred. Meanwhile, the latest leading indicators from the Philadelphia Fed predict a weakening in economic activity over the next six months. As a result, we expect economic growth to average 1.7% in 2012 and 1.5% in 2013.

UPPER SOUTH ATLANTIC HOUSING STARTS



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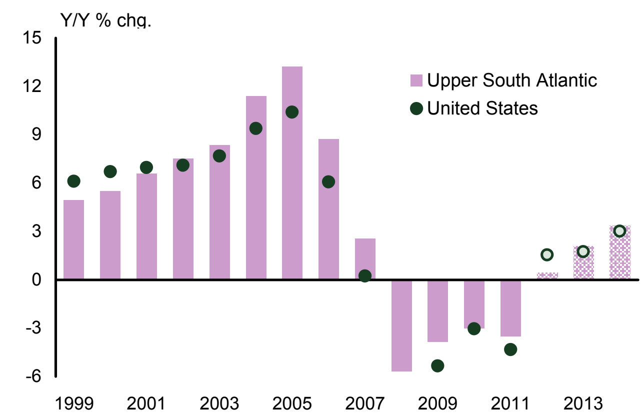
Source: TD Economics, Census Bureau

UPPER SOUTH ATLANTIC HOME PRICES



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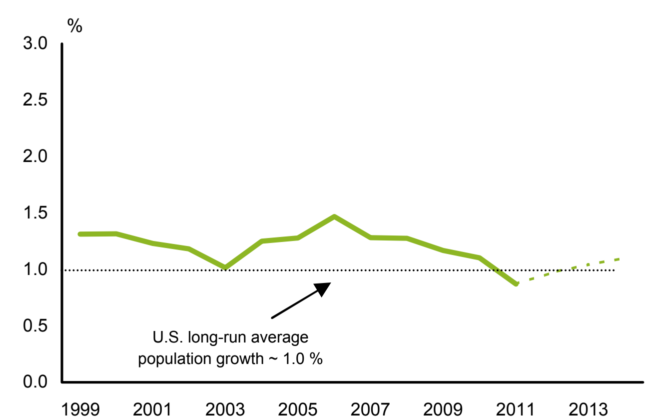
Source: TD Economics, FHFA

UPPER SOUTH ATLANTIC POPULATION GROWTH



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Source: TD Economics, Census Bureau

LOWER SOUTH ATLANTIC

Improving housing demand has led us to upgrade our 2012 growth profile for the three states of the Lower South Atlantic (LSA). We now expect economic growth across Florida, Georgia, and South Carolina to average 2.5% in 2012, outpacing projected national growth of 2.2%.

In Florida, real estate activity will make a positive contribution to growth for the first time since 2007. Of the 50 Florida counties for which home price data is available from CoreLogic, only four are still registering declines as of July: Okeechobbee and Highland Counties east of Fort Pierce, Hernando County just north of Tampa, and Jackson County along the Alabama border. Not only are prices growing elsewhere, in some counties they are surging. Single-family home prices were up a whopping 12% in Miami-Dade County in July. Price appreciation in and around Tampa, Palm Beach, and Key West has been equally strong.

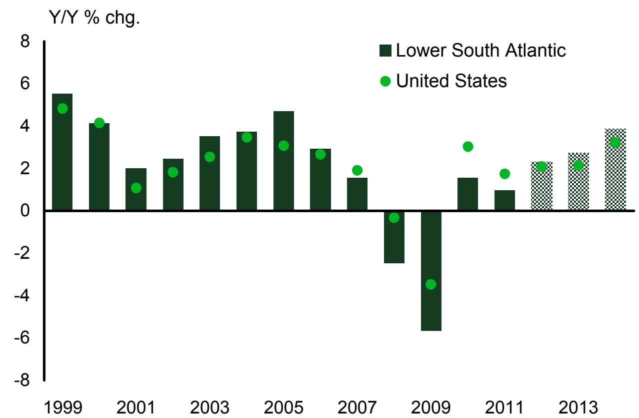
Florida's housing market recovery will continue into next year, supported by robust population growth and foreign investors who are snapping up properties in the state's more popular beachfront locales. The state's massive foreclosure overhang will provide a modest headwind to price growth, but not enough to reverse the upward trajectory. New research from the Atlanta Fed suggests that homes sell at lower prices when foreclosed homes are nearby, and that the negative effects begin early, long before the foreclosure process is completed. However, they find the drag on prices is quite small -- about 1% for properties located within a quarter-mile radius of foreclosed inventory. When the foreclosed property is located farther than 0.25 miles from a non-distressed property, the effect on the latter's selling price is negligible.

Home prices have only recently turned positive in South Carolina and Georgia. Property values in coastal areas around Savannah, Charleston, and Myrtle Beach are doing well. Prices in Atlanta, Macon, and Spartanburg are still down on a year-over-year basis, but have begun growing on a month-over-month basis. As the price recovery matures, we expect housing to prove a key growth driver for these states in 2013.

The outlook for manufacturing has darkened since our last state forecast. Though manufacturing is a small driver of economic activity for the LSA as a whole, it is a major source of activity in South Carolina. After contributing as much as 0.7 percentage points (pp) to state GSP in 2012, manufacturing's contribution will decline to a mere 0.1 pp in 2013. The state's manufacturing base has actually shed a net 1,000 jobs this year. And, the Philadelphia Fed's leading indicators for South Carolina is now negative, suggesting the slowdown has spilled into the broader economy.

A recessionary Europe and federal defense cuts are two

LOWER SOUTH ATLANTIC GSP



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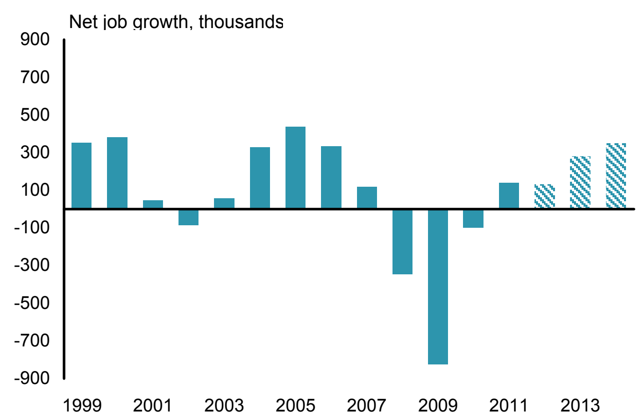
LOWER SOUTH ATLANTIC EMPLOYMENT



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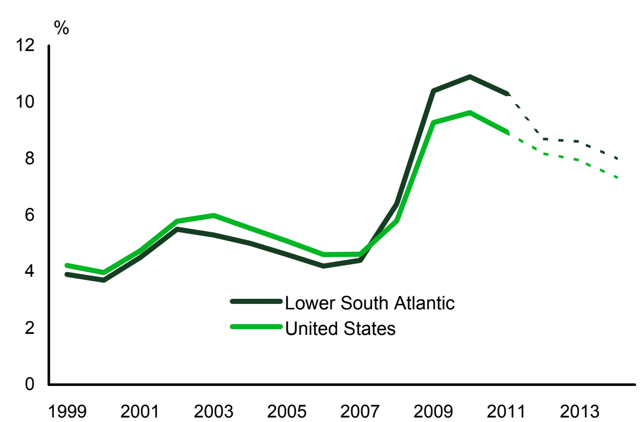
LOWER SOUTH ATLANTIC UNEMPLOYMENT RATE



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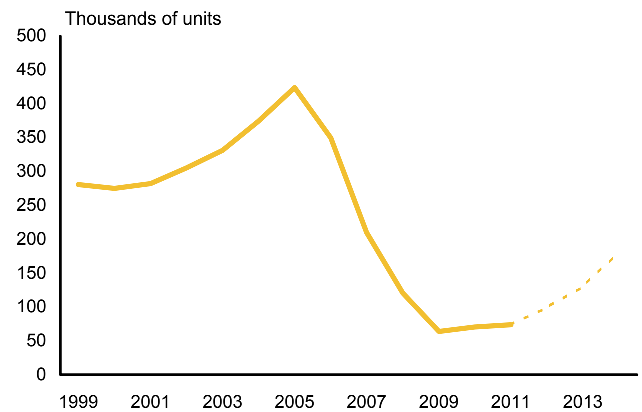
other risks to growth in South Carolina. Europe accounts for nearly one-third of the state's exports, with auto-related equipment the state's largest export commodity. As foreign demand for South Carolina-manufactured autos falls, the sector will have to lean more on domestic market strength to drive growth next year. Also, South Carolina ranks high among the states for exposure to federal defense spending. Given that some degree of federal military downsizing is likely in 2013, the government sector will continue to drag on growth next year.

In light of these risks, South Carolina's economy is likely to grow around 2.4% next year, softer than Florida and Georgia, but faster than the nation as a whole. Although manufacturing activity is normalizing back to a trend pace after experiencing above-average growth earlier in the recovery, the state is still an attractive destination for manufacturers thanks to below-average business costs. South Carolina is also in decent fiscal shape. After years of steep budget cuts, the state ended FY 2012 with a modest surplus. This should allow it to better weather federal spending cuts slated to hit next year.

Across the LSA, tourism will continue to do well, particularly in Florida, but also in Georgia and South Carolina where activity is gradually improving. Florida has recovered 75% of the tourism-related jobs lost since the recession, and employment in this sector will likely surpass its pre-recession peak late next year. Foreign visitors from Latin America will be a key source of demand for hotel bookings and amusement park visitations next year.

LOWER SOUTH ATLANTIC HOUSING STARTS



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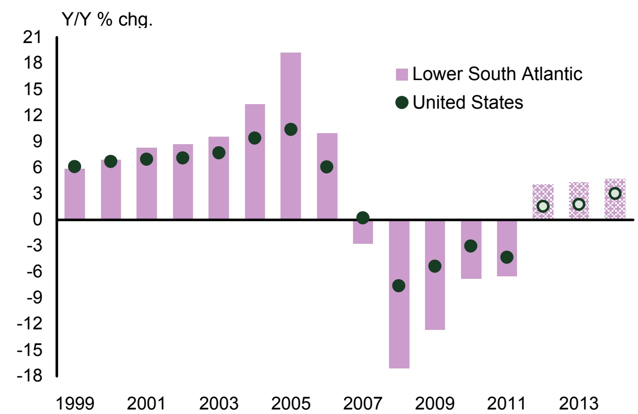
LOWER SOUTH ATLANTIC HOME PRICES



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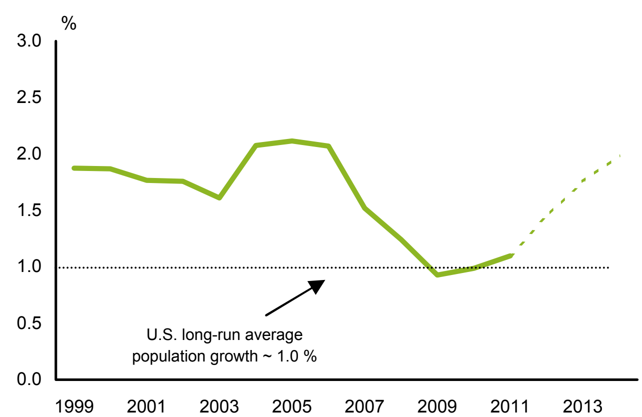
LOWER SOUTH ATLANTIC POPULATION GROWTH



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TD State Forecasts

	Gross State Product (%)			Employment Growth ('000s)			Unemployment Rate (average, %)			Housing Starts (units, '000s)			Home Price Growth (%)*			Population Growth (%)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
National	**2.2**	**2.0**	**3.2**	**1,800**	**1,675**	**2,625**	**8.2**	**7.9**	**7.2**	**741**	**876**	**1,140**	**1.5**	**1.7**	**3.0**	**1.0**	**1.0**	**1.0**
New England	**2.1**	**1.6**	**2.8**	**47**	**41**	**85**	**7.0**	**6.8**	**6.1**	**21**	**26**	**35**	**-1.3**	**-0.3**	**1.3**	**0.3**	**0.4**	**0.4**
Connecticut	1.3	0.8	1.9	8	3	10	8.3	8.1	7.6	5	7	11	-4.2	0.1	0.7	0.1	0.2	0.2
Massachusetts	2.8	2.1	3.4	37	23	47	6.3	6.0	5.1	9	11	15	-1.3	-1.2	1.1	0.5	0.5	0.5
Maine	0.6	1.1	1.7	2	6	8	7.5	7.2	6.6	3	3	3	-0.1	1.9	2.4	0.3	0.5	0.5
New Hampshire	2.3	2.4	3.7	0	6	11	5.3	5.1	4.5	2	3	3	0.9	-0.1	0.8	0.4	0.6	0.8
Rhode Island	0.9	1.4	2.2	-3	2	5	10.9	10.7	10.1	1	1	1	-0.9	0.4	1.7	0.1	0.2	0.3
Vermont	1.7	0.8	2.5	4	2	5	5.0	5.0	4.4	1	1	1	2.7	1.8	2.7	0.2	0.4	0.5
Middle Atlantic	**2.2**	**1.2**	**1.8**	**190**	**127**	**194**	**8.7**	**8.5**	**7.9**	**56**	**59**	**70**	**-0.2**	**0.7**	**2.1**	**0.3**	**0.3**	**0.3**
New Jersey	1.2	0.9	1.8	44	24	43	9.5	9.4	8.7	16	20	26	-0.7	0.2	1.8	0.3	0.3	0.3
New York	2.7	1.4	1.8	124	59	77	8.9	8.7	8.1	21	22	24	-0.2	0.8	2.4	0.3	0.3	0.2
Pennsylvania	2.0	1.1	1.9	22	43	74	7.7	7.6	7.0	19	17	20	0.1	1.1	1.8	0.2	0.2	0.2
Upper South Atlantic	**2.3**	**2.0**	**3.1**	**130**	**162**	**261**	**7.6**	**7.5**	**6.8**	**88**	**104**	**136**	**1.8**	**3.2**	**4.1**	**1.0**	**1.0**	**1.1**
District of Columbia	1.6	0.8	1.2	11	6	5	9.1	8.8	8.1	3	4	8	7.3	6.8	7.3	1.7	1.3	1.0
Delaware	2.2	1.5	2.0	1	5	9	6.8	6.8	6.3	4	4	6	-3.2	-3.4	-1.2	0.9	1.0	1.0
Maryland	1.7	1.5	2.8	28	26	46	6.8	6.7	6.1	14	15	19	2.5	3.5	4.2	0.7	0.8	0.8
North Carolina	3.0	2.9	4.0	35	64	102	9.6	9.6	8.8	42	51	67	0.3	2.5	4.6	1.1	1.3	1.4
Virginia	2.2	1.7	3.1	52	53	89	5.8	5.7	5.0	24	27	33	2.0	3.6	3.7	1.1	1.2	1.3
West Virginia	2.5	1.7	1.4	4	9	11	7.3	6.8	5.7	2	3	4	4.2	3.1	3.4	-0.0	-0.0	-0.0
Lower South Atlantic	**2.5**	**2.5**	**3.9**	**125**	**266**	**401**	**9.1**	**9.0**	**8.3**	**91**	**115**	**163**	**5.4**	**5.4**	**5.1**	**1.4**	**1.8**	**2.0**
Florida	2.3	2.6	3.9	55	171	244	8.9	8.9	8.1	51	65	96	7.1	5.5	4.3	1.6	2.0	2.3
Georgia	2.9	2.6	4.2	47	68	111	9.2	9.1	8.5	23	28	40	1.7	4.4	5.9	1.4	1.6	1.7
South Carolina	2.5	2.0	3.0	23	27	46	9.4	9.3	8.6	17	21	27	2.6	7.1	8.5	1.1	1.2	1.3

*Based on FHFA purchase-only home price index. Forecasts by TD Economics as of September 2012

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