

U.S. REGIONAL CHECK-UP



TD Economics

HIGHLIGHTS

January 16, 2012

- The latest reading from the Fed's Beige Book shows that the economy improved across TD Bank's footprint throughout December and late November.
- Stronger retail spending, particularly on autos and tourism, was a common theme in all regions.
- As state governments continue to face extraordinary funding pressures, lawmakers in Florida and New York are starting to seriously consider casino development as a way to raise revenues.

REGIONAL TRENDS

New England

- As global growth slows and Europe heads for recession, New England's manufacturing sector has started to cool. This means, New England will struggle to sustain its recent economic outperformance.

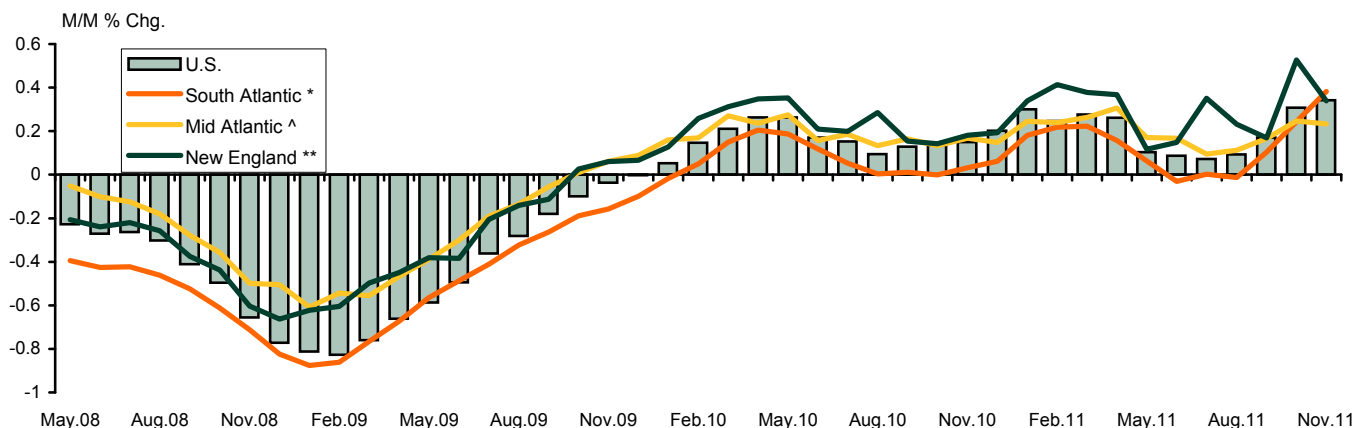
Middle Atlantic

- New York Governor Andrew Cuomo recently outlined his vision for the FY2012-13 budget, and has called for nearly \$15 billion in public and private infrastructure investment.

South Atlantic

- Florida Governor Rick Scott wants to see an additional \$1 billion spent on education in FY 2012.
- Meanwhile, the debate over new casino development in Florida rages on. While the economic benefits are large, they must be weighed carefully against the potential social costs.

REGIONAL COINCIDENT INDICES



Source: Philly Fed, TD Economics. *DE,MD,WV,VA,SC,NC,GA,FL; ^NY, NJ, PA; ** CT, MA, ME, RI, NH, VT

NEW ENGLAND - WEAKER MANUFACTURING TO DAMPEN REGIONAL GROWTH

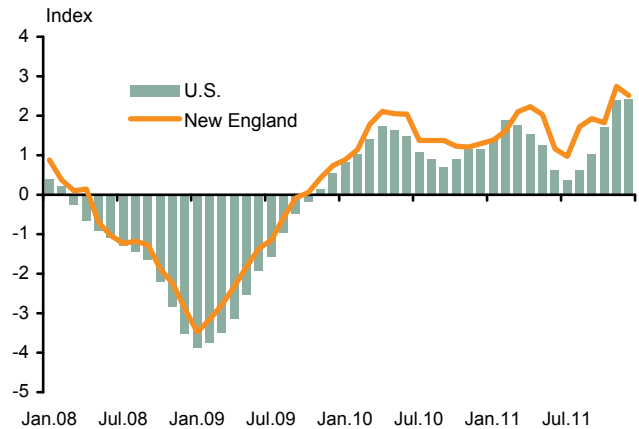
New England's economy has fared better than most since the recovery started in 2009. Yet, rather than a broad based outperformance, a small number of sectors have contributed disproportionately to the region's strength. New England's manufacturers, for instance, benefit enormously from rebounding global trade, while corporate America's drive to improve efficiency has sparked rapid demand growth for high-end business services. Unfortunately, as this month's Beige Book highlights, strength within the region's manufacturing sector is starting to slow.

The reasons for a manufacturing slowdown are clear. First, there are pure cyclical factors. Global trade and inventories were battered during the recession, so once the economy started growing in 2010 and 2011, a temporary period of above average growth was inevitable. Second, New England's trade exposure to Europe is significant, so the continent's impending recession is starting to weigh on orders. Finally, defense spending cuts have, and will continue to dampen production.

While weaker manufacturing growth is disappointing, at this step in the business cycle it is to be expected and New England should weather this slowdown just fine. As the Beige Book points out, consulting and business services maintained remarkable sales growth during Q4 2011, and there is little reason to fear this will change in 2012 (barring global financial contagion from Europe's fiscal crisis). Furthermore, a recent CB Insights survey showed that venture-capital deals in the Bay State almost reached \$1 billion in Q4 (the second highest reading in the country after California), illustrating that the region's cutting edge research and development industries remain healthy. Finally, New England's overweight healthcare sector is sure remain a steady engine of economic growth.

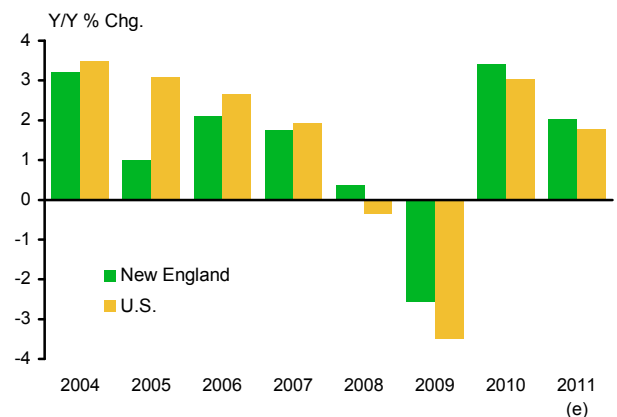
That being said, New England's economy has outpaced the national average for two years running thanks in large part to the robust growth of its manufacturers. As this strength fades, there is no sector that stands ready to replace the lost demand. Housing (the only sector with enough pent-up demand to supplant manufacturing) remains stagnate. Worst still, recent downward revisions from NAR, reveal that Northeast housing sales have been far weaker than previously thought. This means the region's foreclosure crisis is poised to fester for even longer than we'd expected. As a result, it looks likely that New England's economic outperformance in recent years is starting to give way to a period of average growth.

REGIONAL LEADING INDICATORS*



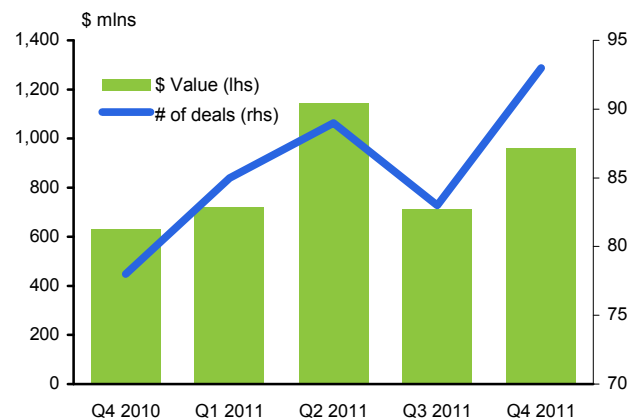
Source: TD Economics, Federal Reserve *based on Philly Fed State Indices

ECONOMIC GROWTH IN NEW ENGLAND



Source: BEA. Estimate by TD Economics as at Jan. 2012

MASSACHUSETTS VENTURE CAPITAL



Source: CBInsights

MIDDLE ATLANTIC – CUOMO SETS THE TONE FOR 2012

According to the Beige Book, economic growth accelerated across the Middle Atlantic during the final six weeks of 2011. Manufacturing activity has improved following its mid-year slump, and holiday retail spending was reported as “robust” in New York and “meeting seasonal expectations” in Philadelphia. Of course, the owner occupied housing market remains deeply troubled, but the rental market continues to provide some offset.

Signs that regional economic growth is strengthening are encouraging, because the Middle Atlantic’s economy faced a disappointing fall season. Between August and November, both the regional manufacturing surveys dipped below 50 (indicating a contraction) and overall job creation slowed to a crawl.

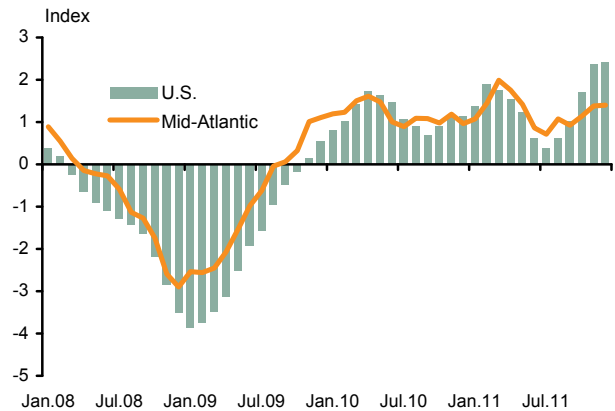
No single factor accounts for the region’s sluggishness in the fall, which is perhaps a sign that temporary forces were largely to blame. In Pennsylvania, for example, a dearth of state and local job cuts weighed heavily on job creation. More than 10K of this year’s 16K state and local job losses came during August and September, distorting an otherwise decent pace of hiring in the private sector. In New Jersey, weaker job market momentum can be chalked up to layoffs in two or three sectors, which is not indicative of a reversal of earlier gains.

On a different note, New York Governor Andrew Cuomo gave his 2013 State of the State address to lawmakers on January 4th. While specifics of the Governor’s 2013 plan will remain vague until the official budget proposal is released on January 17th, Mr. Cuomo continues to call for radical changes to the administration of government in the nation’s second largest state. The Governor is also proposing \$15 billion in infrastructure spending that will draw heavily on private sector investment.

Fiscal year 2012 will usher in a number of other changes for the Empire State. A millionaire tax was approved in December, replacing an old surcharge that was set to expire. Some of the money will be used to increase program spending, while the rest will fund a modest tax break (ranging from \$200 to \$400 a year) for middleclass families.

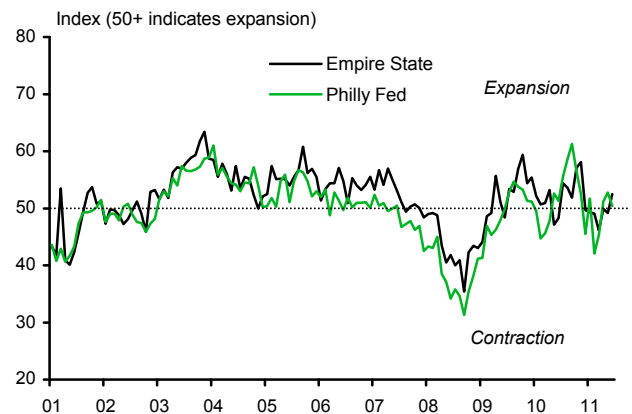
Some heated policy debates are sure to take shape in Albany during 2012. Cuomo has asked lawmakers to consider a constitutional amendment that would allow casino gambling – which he hopes to become a new source of state revenue. Further, the debate over the region’s shale gas reserves continues to rage on. Cuomo was noticeably quite on the subject during his State of State address, even as protestors crowded the halls demanding the drilling moratorium remain in effect.

REGIONAL LEADING INDICATORS*



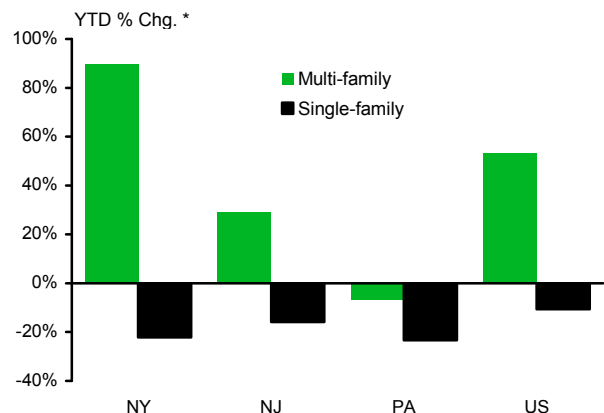
Source: TD Economics, Federal Reserve *based on Philly Fed State Index

FEDERAL RESERVE PMIs



Source: Federal Reserve Bank

NEW HOUSING STARTS



Source: Moody's economy.com

*average housing starts between January to September in 2011 vs. 2010

SOUTH ATLANTIC - SUNSHINE, EDUCATION, AND CASINOS

The pace of economic growth across the South Atlantic appears to have improved slightly over the last six weeks. Reports from the Richmond Fed were somewhat mixed, as manufacturing orders remained essentially unchanged, retailers reported scatter signs of improvement, and regional service sector firms reported a considerable rebound in activity. The Atlanta District, meanwhile, described growth as “modest” and characterized tourism activity as “solid”.

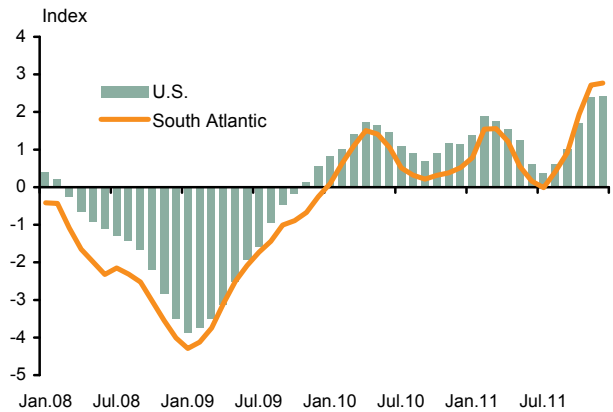
In his State of the State address, Florida Governor Rick Scott laid out his legislative agenda for FY2013. The Governor’s top priority will be to increase education spending by \$1 billion. While significant, this increase will follow last year’s \$1.3 billion cut in education funding. Furthermore, the state still needs to close a sizeable FY2013 funding gap, which will likely entail another year of broad based spending cuts.

Also in the Sunshine State, a panel of state senators voted in favor of developing three massive resort destination casinos. A number of political hurdles must still be cleared before any development starts, but it is worth mentioning the potential economic impacts of the proposed casinos. First, developers would be required to spend at least \$2 billion on the resorts, providing a sizeable boost to the state’s beleaguered construction industry. Second, a reasonable case can be made that the casinos will attract out-of-state dollars and support the broader tourism industry. Lastly, the revenue from gaming is an attractive way to raise money and finance additional state spending, especially given the relatively weak pace of state revenue growth. That being said, the proposed casino projects appear to have public support, but a significant minority of citizens and law makers are sure to continue putting up stiff resistance.

Meanwhile, in North Carolina, Duke and Progressive energy are preparing to resubmit a proposal to merge. The merger was originally blocked because of concerns that the combined entity would hold too much power in the wholesale energy market. If approved, the new entity should provide upwards of \$650 million in customer savings across the Carolinas, and enhance the economic viability of developing new regional energy capacity.

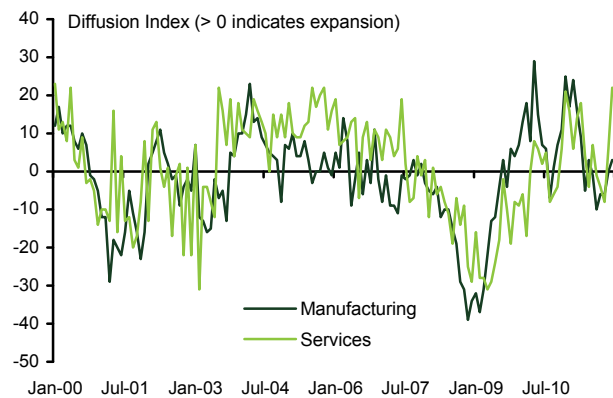
Finally, Virginia Governor Bob McDonnell will propose \$37 million in state economic development initiatives when the state legislator convenes later this month. The money will fund initiatives in the life-sciences industry, tourism, and the Wallops Island rocket launch site. Also, the state is considering a new small business tax credit.

REGIONAL LEADING INDICATORS*



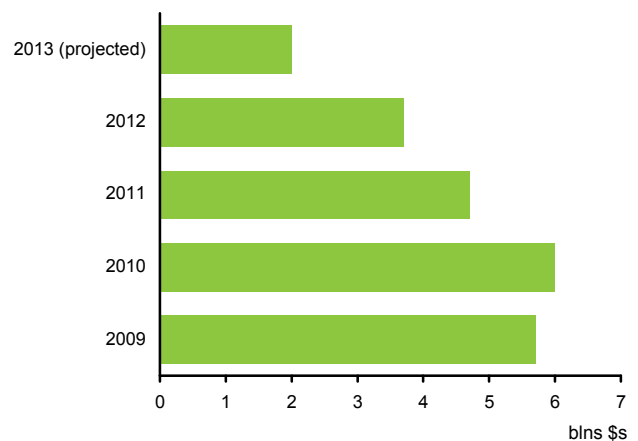
Source: TD Economics, Federal Reserve *based on Philly Fed State Index

REGIONAL ACTIVITY STRENGTHENS IN THE NORTH*



Source: Richmond Fed. *Survey covers Maryland, Virginia & West VA, North/South Carolina.

FLORIDA BUDGET GAPS



Source: Center for Budget Policy and Priorities



This report is provided by TD Economics. It is for information purposes only and may not be appropriate for other purposes. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. The report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.