U.S. REGIONAL CHECK-UP

TD Economics

HIGHLIGHTS

March 13, 2013

- The latest Beige Book suggests that economic activity expanded at a modest to moderate pace across the TD footprint in the first six weeks of 2013.
- Manufacturing activity regained some strength in all but one District, but weak external demand and remaining uncertainty continue to weigh on orders and hiring. Housing market recovery continued to broaden with prices growing in all but a couple of states. Tourism and retail appear as the bright spots across most Districts.
- No new employment data has been released since the last Regional Check-Up, as the Bureau of Labor Statistics implements its annual revisions. State payrolls for the months of January and February will be released on March 18th and March 29th, respectively.

REGIONAL TRENDS

New England

- New England's economy continues to expand at a modest pace thanks to strength in retail, tourism and staffing services firms. Meanwhile, activity in the manufacturing and information technology sectors remains subdued as a result of weaker demand from Europe.

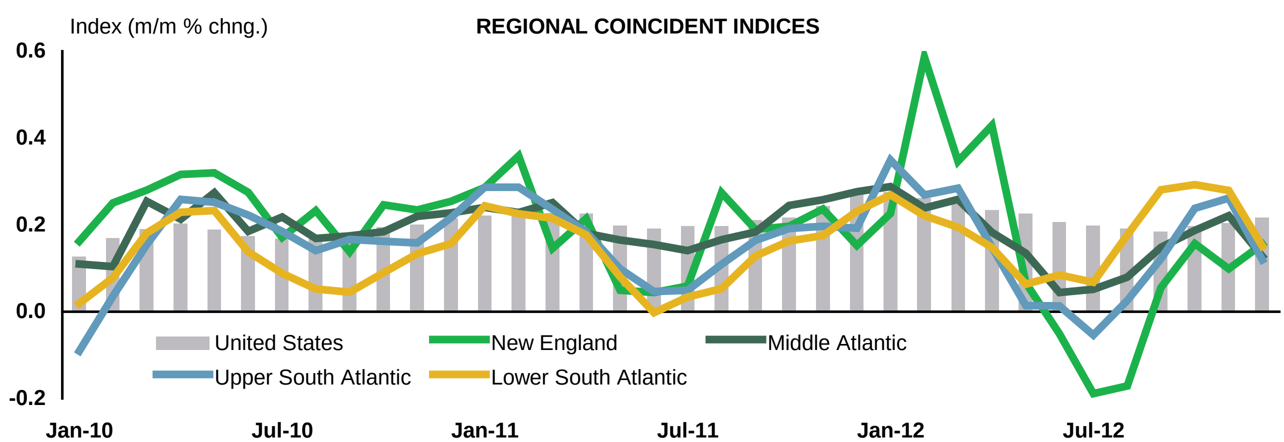
Middle Atlantic

- Economic activity at the start of the year expanded moderately across New York and northern New Jersey but grew modestly in Pennsylvania and South Jersey, with particular strength in tourism and retail sales. This was largely on par with the previous pace of growth, as conditions largely normalized to pre-Sandy levels.

Upper and Lower South Atlantic

- The economy of the Upper South Atlantic accelerated in January and early-February from the modest pace in the closing weeks of last year. Manufacturing, retail, tourism and transportation were among the fastest growing sectors.

- Economic activity in the Lower South Atlantic expanded modestly during January and early-February; just a touch slower than in the closing weeks of 2012. The slight slowdown was centered around retail, residential and commercial real-estate, while construction and tourism remain as the brightest spots.



Sources: Federal Reserve Bank of Philadelphia, TD Economics

Beata Caranci, VP & Deputy Chief Economist 416-982-8067
Michael Dolega, Economist 416-983-0500
Ksenia Bushmeneva, Economist 416-308-7392

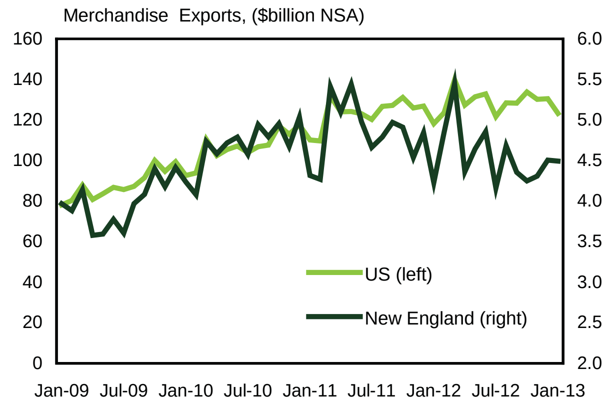
NEW ENGLAND (CT,MA,ME,NH,RI,VT)

According to the latest Beige Book, there has been little change in the pace of economic growth in New England over the past six weeks, with the regional economy improving at a steady, yet modest pace. Regional industries continue to post mixed results: while retail, tourism and staffing services firms cited improved sales, activity remained fairly soft in the manufacturing and information technology sectors. Facing uneven performance and plenty of uncertainty around sequestration, local businesses remain reluctant to commit to new leasing contracts. Nonetheless, at least for now, the overall demand for commercial real estate remains stable, with leasing activity and office vacancy rates holding steady. In contrast, the residential real estate is unambiguously improving, with strong year-over-year gains in both single-family and multifamily markets.

Last year, New England's economy churned out 55,000 new jobs; however, employment still has a long way to go with payrolls still short 162,000 positions relative to their pre-recession level. The vast majority of those unrecovered jobs are in manufacturing, which has yet to recoup 110,000 positions. The protracted recovery in the manufacturing sector presents one of the main impediments to job creation in the region. Unfortunately, it looks like hiring in this sector is unlikely to pick up pace the in the near future, as cuts to federal defense spending and significant export exposure to the European market will continue to weigh on firms' hiring decisions. Set against the backdrop of economic contraction in Europe, New England's merchandise exports have recently slipped 2.2%. Based on the last three months of data, exports volumes from MA, ME, VT fell by 7%, 9% and 12% respectively. Although the sovereign debt crisis in Europe appears to have somewhat stabilized, economic activity has yet to follow suit.

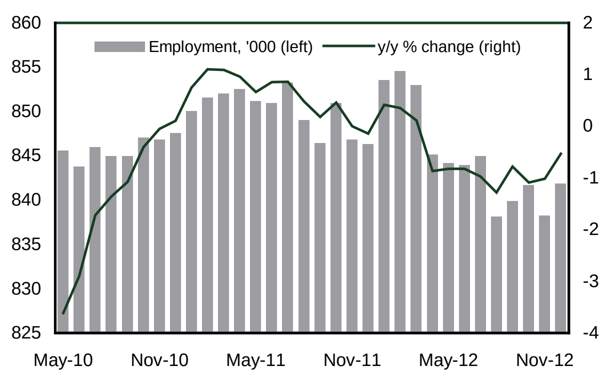
Low interest rates, improved affordability and an uptick in overall economic conditions have all helped to spur recovery in housing market, with both sale volumes and prices trending higher. Existing home sales increased 12% y/y in December, however, this positive regional trend masks the underlying divergence at the state level, with some states faring much better than the others. CT and MA have led the way with sales up 28% y/y and 15.2% y/y respectively. Activity has also moderately increased in NH and RI. ME and VT, on the other hand, posted sizable declines. In addition to slow economic recovery, both states are facing significant demographic challenges, such as slow population growth, negative net-migration and aging workforce. All these factors will put additional strain on their real estate markets going forward. Additionally, the CT real estate market may face some downside risks, with Governor Patrick's proposal to eliminate the Capital Tax Exclusion from the sale of a principal residence, potentially tempering activity in CT housing market.

DOWNTURN IN EUROPE WEIGHS ON NEW ENGLAND'S EXPORTS



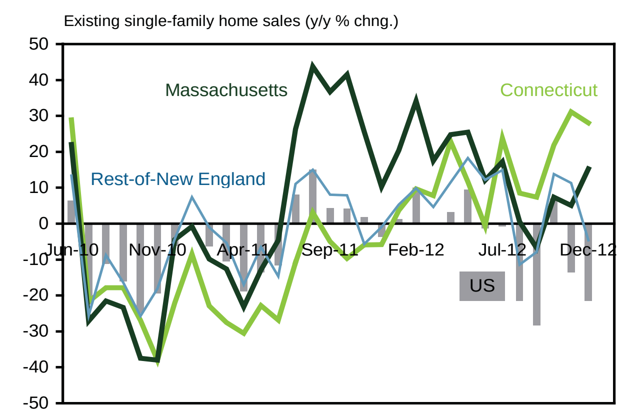
Sources : U.S. Census Bureau

GOODS-PRODUCING SECTOR CONTINUES TO SHED JOBS



Sources : U.S. Bureau of Labor Statistics

BRISK HOME SALES IN CT AND MA



Sources: CoreLogic, Moody's Analytics

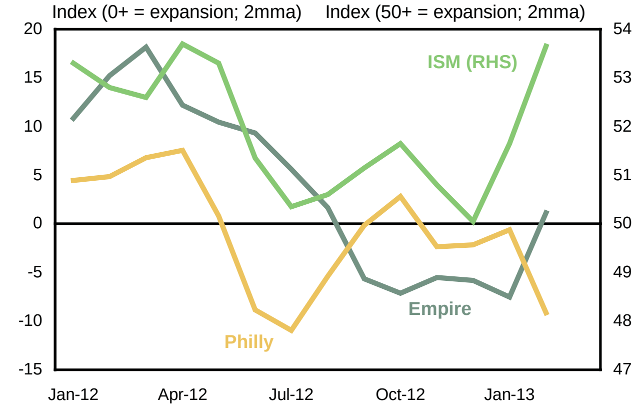
MIDDLE ATLANTIC (NJ,NY,PA)

Economic activity at the start of the year expanded moderately across New York and northern New Jersey while growing modestly in Pennsylvania and South Jersey. This was on par with the previous pace of growth, with conditions largely normalized to pre-Sandy levels. In fact, with the exception President's Day holiday cancellations causing higher vacancies for some businesses, Sandy-related activity has begun to positively impact economic growth. In addition to gains in tourism, retailers indicated healthy sales growth. Residential and commercial real estate also improved, but at a modest pace overall.

Anecdotes from the recent Beige Book reinforce the theme of divergence among Mid Atlantic manufacturers, already apparent in regional manufacturers' surveys. The Philly Fed surprised to the downside, driving deeper into negative territory, while the Empire Index, after contracting for six months, sharply recovered to modestly expansionary pace. Manufacturers in the New York Fed District indicated positive momentum in orders and new hiring, while Philadelphia Fed District firms voiced restraint in the face of continued fiscal uncertainty and weak demand. Some of the weakness may be related to export demand, which has struggled due to high European exposure. Moreover, weaker demand among primary and fabricated metal manufacturers – sectors prevalent across the Commonwealth – may also be playing a part. Short-run weakness may persist, but we expect manufacturing will provide support for the Mid Atlantic economy going forward, consistent with increasing global competitiveness of overall U.S. manufacturing.

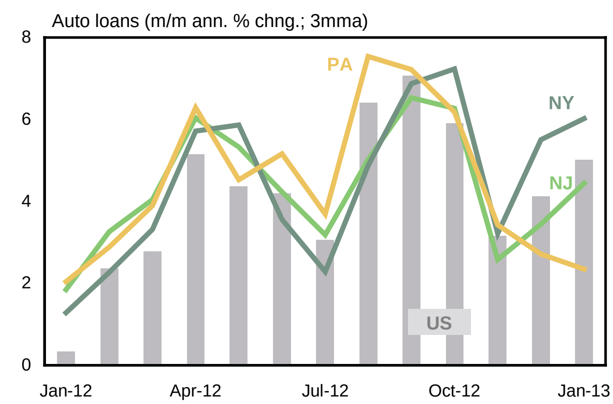
Retail activity in the region started the year off at a strong pace, partly due to some activity pushed ahead from the soft holiday season. Overall retail has been aided by automotive sales, which surged at the start of the year. Strength was visible in upstate NY, but was especially apparent across NJ dealers, as insurance policy payouts helped owners replace vehicles flooded by Sandy. Tourism benefitted also through increased bookings from displaced residents as well as utility crews, construction workers, and insurance adjusters working in the Sandy-affected areas. But, tourism fortunes also appear to be diverging, with NYC hotel occupancy strengthening while Atlantic City (AC) casinos continued to underperform, with revenues declining through last year and into January 2013. Rising vacancies among retailers, up over 1pp during 2012, underscore AC's continuing struggle to attract visitors. This trend was further accentuated by a recently opened casino, previously expected to help revive the city's fading fortunes, filing for bankruptcy last month. The casino remains operational and no layoffs have been announced to date, but with food & accommodation payrolls falling below pre-recession levels recently, the odds of a quick turnaround are longer than before, even if the gamble to legalize online gaming pays off in the Garden State.

REGIONAL MANUFACTURING DIVERGES



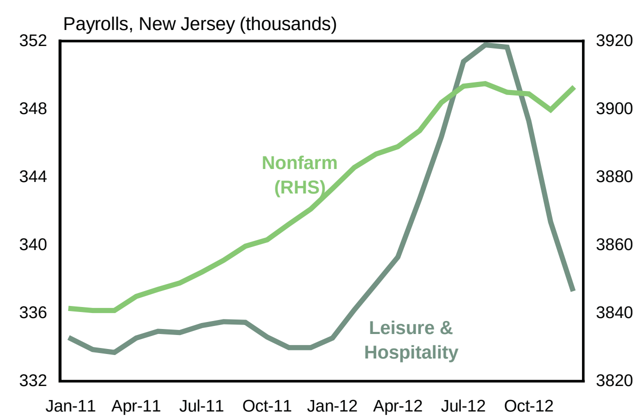
Source: Federal Reserve Bank of New York, Federal Reserve Bank of Philadelphia, Institute for Supply Management, TD Economics

AUTO SALES REBOUND AFTER SANDY



Source: Equifax, TD Economics

NEW CASINO PAYROLL GAINS ALL BUT ERASED



Source: Bureau of Labor Statistics, TD Economics

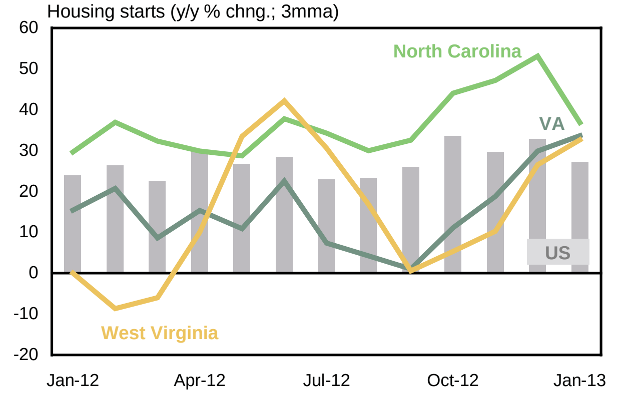
UPPER SOUTH ATLANTIC (DC,DE,MD,NC,VA,WV)

The economy of the Upper South Atlantic accelerated in January and early-February from the modest pace in the closing weeks of last year. Manufacturing, retail, tourism and transportation were among the fastest growing sectors. Construction and commercial real estate activity also strengthened, while residential real-estate activity grew modestly. Other service sectors continued to advance, albeit at a slightly slower rate.

Construction activity remained solid across much of the region, with residential starts up in all states. Particular strength was visible in North Carolina and the Virginias, where January housing starts continued to advance well above the national average. In recent months NC starts have risen by close to 40% y/y, while both Virginia and West Virginia have seen gains of 33% from a year ago. Maryland and Delaware also posted robust gains, but were both shy of the national average. The District of Columbia experienced slight declines last year, but these came off a bumper year for new construction in 2011. Starts in D.C. rose five-fold in 2011 and remain three times their 2000-07 average, supported by very strong housing market fundamentals. Existing home prices, which in D.C. experienced only a moderate correction, continue to advance strongly, supported by one of the lowest distressed-sales share in the country and a rapidly declining unemployment rate. The jobless rate fell nearly 2pp over 2012, and has attracted strong in-migration. D.C. population rose by more than 2% for the fourth consecutive year in 2012 making it the second fastest growing jurisdiction in the country after North Dakota.

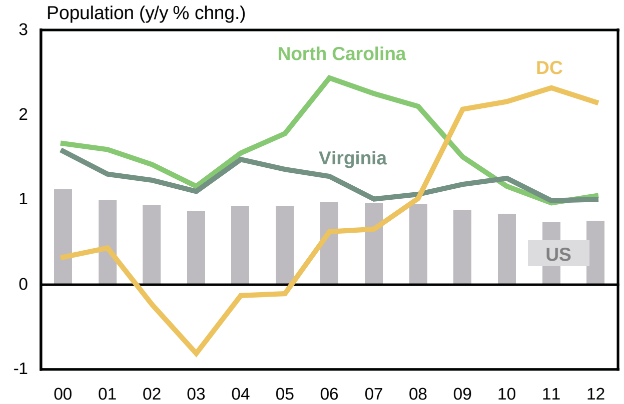
Despite the momentum, the D.C. economy is likely to feel the pinch of the recently enacted sequester, alongside Maryland and Virginia. This sub-region is particularly exposed to federal spending, which makes up 1/5th of its economy, with federal nondefense employment share four times the national average. A recent report commissioned by the Virginia Economic Development Partnership found that the automatic federal cuts may result in as much as 160k jobs and $4.2 billion in lost economic activity in VA over the next five years, or approximately 1% of output. Some of the negative economic impacts may be tempered by the state's "Revenue Stabilization Fund." In pre-emptive preparation for the possible sequester, Governor McDonnell ramped up VA's 'rainy day' fund by $500 million last year. The Governor has also touted the state's diversification efforts, attempting to woo firms from other states to set-up operations in the Old Dominion State. His upcoming trade mission to Japan and China is intended to encourage trade between Virginia and the Pacific Rim. Trade through VA could indeed benefit as post-Panamax ship capacity rises, with the Port of Norfolk currently the only east coast facility already able to handle the larger ships, built in anticipation of the Panama Canal expansion currently underway.

HOUSING STARTS ADVANCE



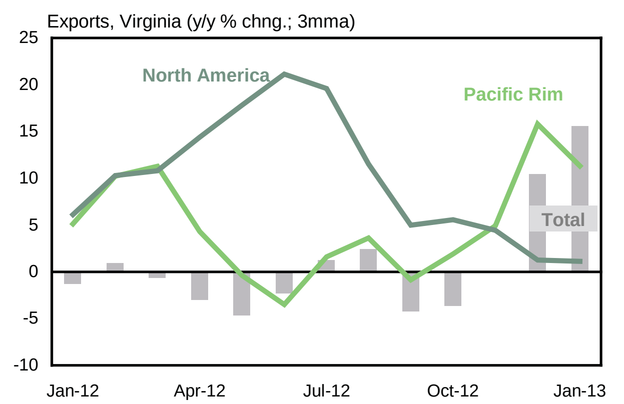
Source: Census Bureau, Moody's Analytics, TD Economics

DC IN-MIGRATION LEADS TO STRONG POPULATION GROWTH



Source: Census Bureau, TD Economics

VIRGINIA EXPORTS TO PACIFIC RIM SURGE



Source: Census Bureau, TD Economics

LOWER SOUTH ATLANTIC (FL,GA,SC)

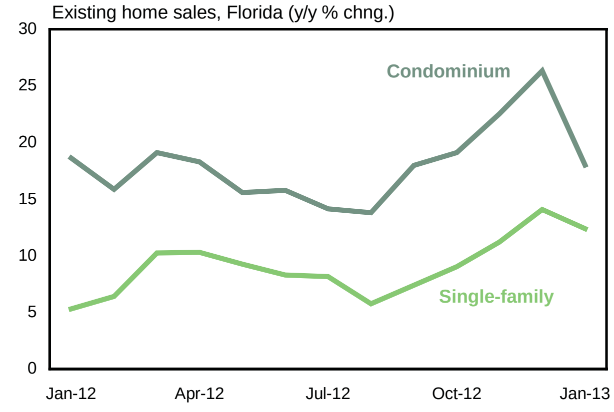
Economic activity in the Lower South Atlantic expanded modestly during January and early-February; just a touch slower than in the closing weeks of 2012. The slowdown was centered around retail, residential and commercial real-estate. But despite the deceleration, activity remains well above year-ago levels. Moreover, the outlook for the year remains broadly optimistic across most sectors of the economy, with construction and tourism as brightest spots.

Although dimming somewhat in January, housing continues to shine in the Sunshine State. Existing home prices, which began recording gains in early 2012, were up a full 12% for single-family properties and 18% in the multifamily segment in January. This is down slightly from the red-hot pace in the fourth quarter as activity decelerated, particularly on the multifamily front, where sales growth stalled and listings rose in January. Recent share of cash condo sales declined to 75% from 80% in early 2012, indicating some potential pullback in investor interest, with much of the lowest hanging fruit already picked. Nevertheless, we expect home price gains to continue at a robust pace for the rest of year, supported by very low non-distressed inventories, as sellers hold onto properties in hope of a larger gain. January inventory ticked up to 5.6 months fo sales for singles and 6.2 months for condos, but remains near the 5.5 'balanced market' territory, and is certainly well short of the 8.2-8.3 months' level from a year ago.

Housing has also turned positive in South Carolina and Georgia, with price gains of 7% and 5% recorded through December. But while the rebound is more muted and manifested itself later, both GA and SC downturns were far less severe than Florida's 50% drop. Palmetto State home prices remain just 10% off their peaks, while Georgia's are about one-fifth shy of record. In contrast, even after the recent appreciation FL home prices are 40% below their 2006 levels, with lots of ground left to be made up. The recovery in the existing house market has also spurred new construction. FL single-family permits were up 30% last year while multifamily permits doubled to 22k in 2012. Gains were also recorded in GA and SC permits, with both up 23%; in line with the national increase. The construction sector has finally begun adding jobs in FL, with 10k new jobs largely among concrete pouring contractors used in high-rise construction.

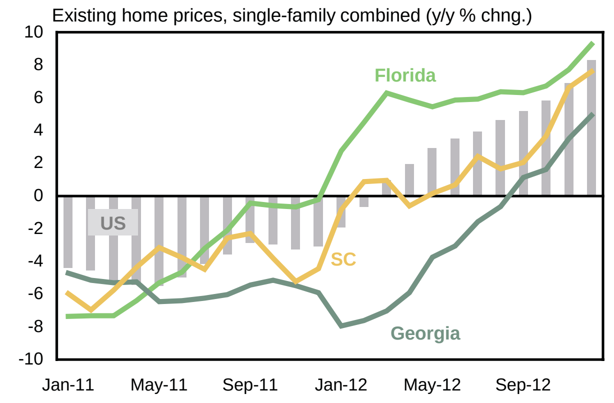
Overall FL construction employment should be further buoyed by infrastructure spending, with the proposed budget by Gov. Scott – the largest in state history – earmarking an 11% rise in transportation spending. Much of this will be devoted to roads and highways, but nearly $200M will go to continued Panama Canal-related port expansions, intended to make Florida the "gateway to the Americas" in the post-Panamax world. Majority of the funding will go to the Port of Miami ($30.6M), Port of Tampa ($26.7M), and Port of Manatee ($19.5M).

EXISTING HOME SALES COOL SLIGHTLY



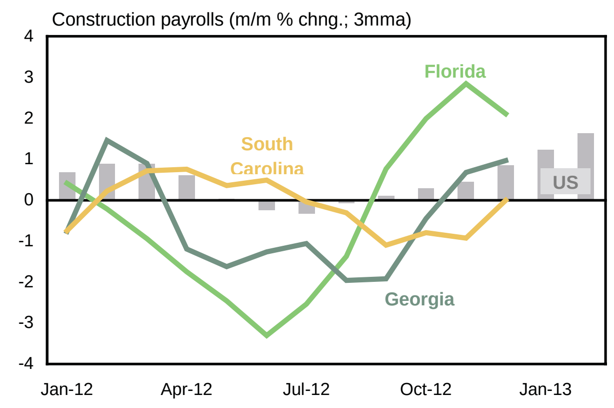
Source: Florida Association of Realtors, TD Economics

REST OF LoSA CATCHING UP



Source: CoreLogic, TD Economics

CONSTRUCTION JOBS ON THE RISE



Source: Bureau of Labor Statistics, TD Economics