



America's Most Convenient Bank®

U.S. Economic Outlook with Focus on Maine: Shining Amidst Global Gloom

Michael Dolega
Senior Economist, TD Economics

2015 Annual MEREDA Forecast Conference
Portland, Maine
January 22, 2015



Key Themes

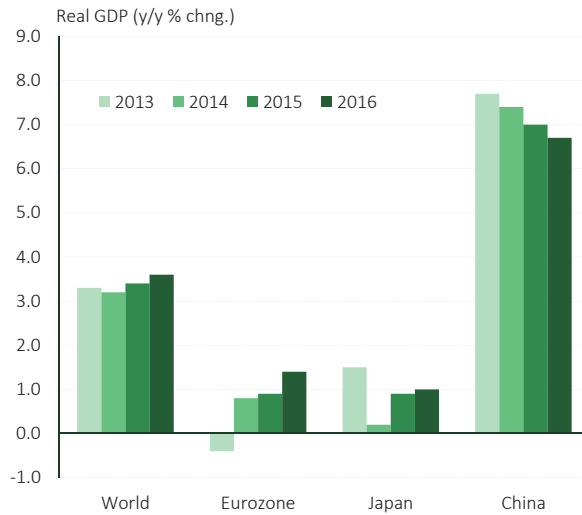


- Global economic backdrop; uneven and not supportive
- Oil price plunge; consumers big winners, producers under threat
- U.S. inflation muted; Europe on the cusp of deflation
- Fed to raise rates later this year; ECB, BOJ to stimulate more
- Long rates to stay low on global weakness; dollar a big winner
- U.S. economy to strengthen; consumers, housing to drive growth
- Maine will accelerate, but underperform on demographics, industry mix

Global economic backdrop not very supportive



- Growth in the Eurozone continues to languish.
- Abenomics not living up to the hype in Japan.
- China slowing as economy evolves and housing cools.
- Emerging markets faced with lower commodity revenues and capital flight.
- Disinflation and deflation worries across advanced economies.



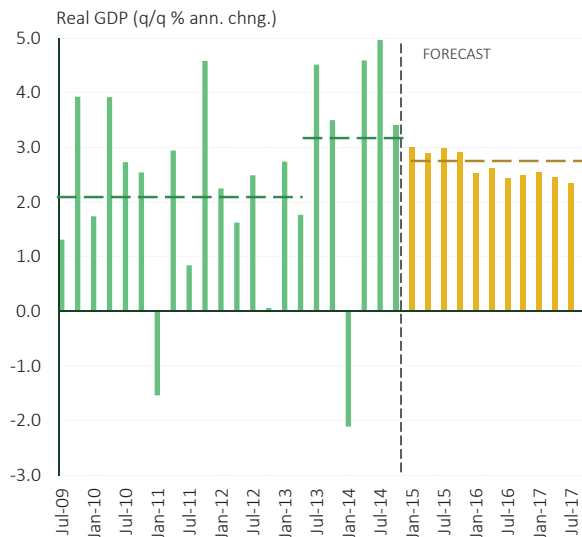
Source: International Monetary Fund, TD Economics

3

U.S. economy looking increasingly resilient



- After several false dawns, growth in the U.S. has strengthened.
- Recovery through mid-2013 averaged just 2.1%, due to Eurozone crisis, sequester, etc.
- Since then, growth has averaged over 3%, despite the polar vortex induced slowdown a year ago.
- The near 3% momentum should be sustained over coming quarters despite headwinds.



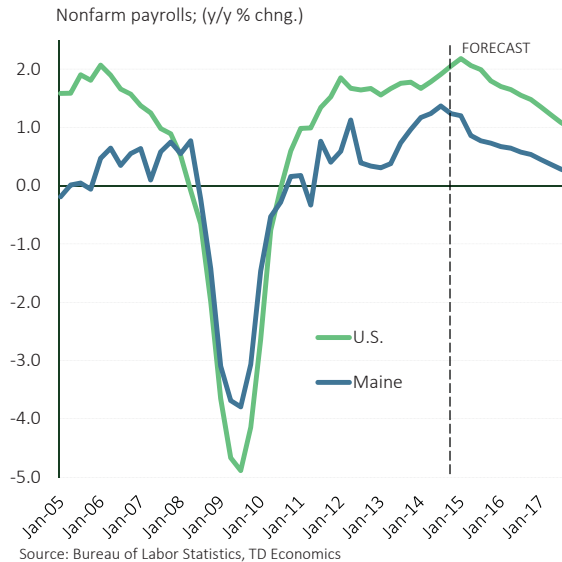
Source: Bureau of Economic Analysis, TD Economics

4

Job growth has ramped up



- Economy adding nearly 300,000 nonfarm jobs per month. Best pace of job gains since 1999.
- Gains are widespread, with private services, construction, manufacturing all contributing. Even state & local gov't adding.
- Employment in Maine at half the pace, but still strongest since 2000 with over 7,000 new jobs.
- Portland growth strongest at around 1.6% while Lewiston slowed to 0.2% recently.

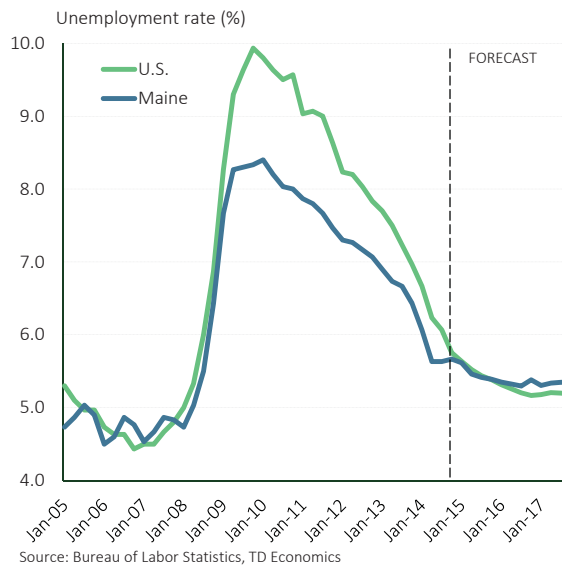


5

And the labor market continues to tighten



- Jobless rate falling sharply, from 7.9% at end of 2012, to 6.7% in 2013 to 5.6% to end 2014.
- Stronger job gains are a key factor, but demographics also playing a part.
- Jobless rate in Maine rose slightly recently but should continue to improve.
- Labor market tightest in Portland (4.7%), while Lewiston (5.4%) and Bangor (6.5%) softer.

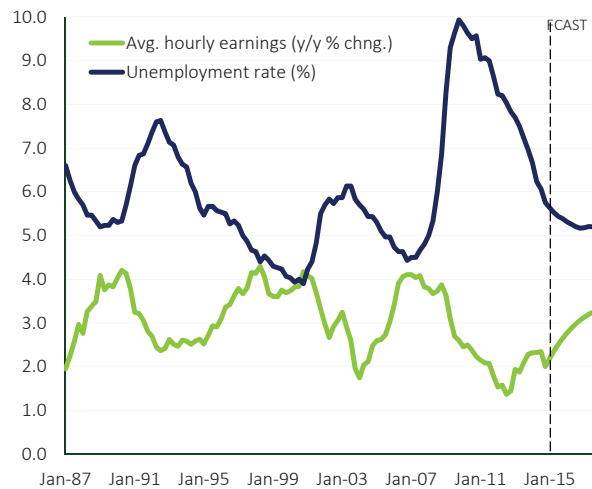


6

Improving labor market should manifest in stronger income gains and confidence



- Despite stronger job market wage gains remain elusive.
- Large share of new jobs created in lower paying industries.
- Demographics could also be impacting wage growth.
- Some industries are showing wage pressures. Broader gains should manifest as labor market tightens further.
- For now, incomes supported by increases in hours worked.



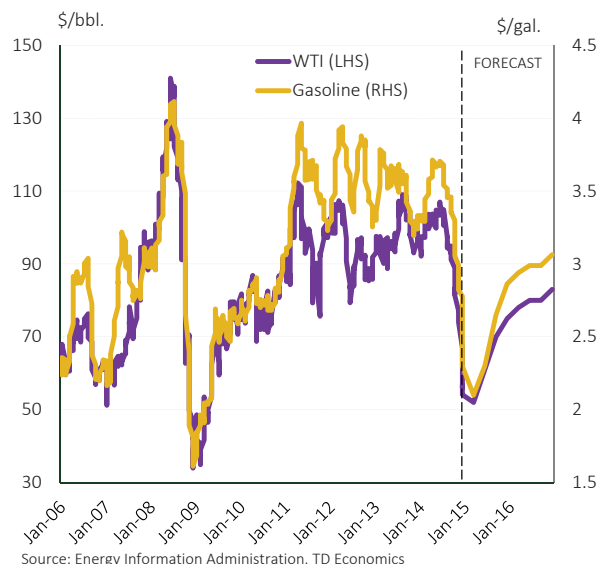
Note: Avg. hourly earnings are for production & non-supervisory employees.
Source: Bureau of Labor Statistics, TD Economics

7

Plunge in oil prices a boon for consumers, but problem for producers



- Oil prices fell more than half since mid-2014 levels.
- Decline partly related to sluggish global growth, but mostly to oversupply.
- Rapid U.S. shale production and unwillingness of OPEC to cut.
- Gasoline down nearly 40% across the country. Heating oil lower. Big benefit to consumers.
- Producers increasingly under pressure. Possible downside risk.



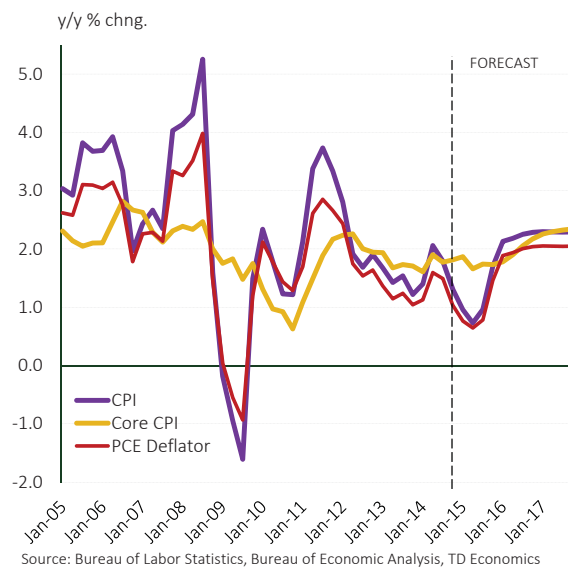
Source: Energy Information Administration, TD Economics

8

Inflation remains muted but deflation unlikely



- Inflation has been running below 2% for nearly two years.
- Falling oil prices and lofty dollar will pressure headline inflation.
- Core inflation will also remain lukewarm as decline in oil works through the economy.
- Deflation or "lowflation" does not appear likely in U.S. given economic momentum.

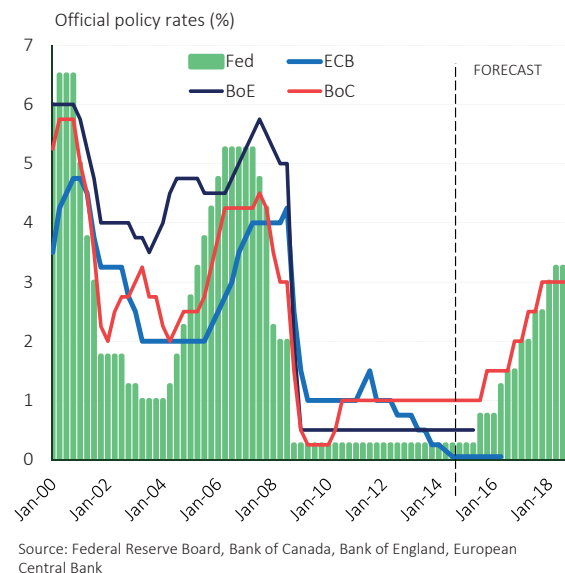


9

Fed looks likely to move this year



- After nearly seven years at zero, the Fed likely to begin to raise rates later this year.
- Inflation expected to track back to 2% range, with economy closer to full employment.
- Rate hikes will be gradual.
- Neutral rate lower than before.
- Other developed central banks will lag the Fed.

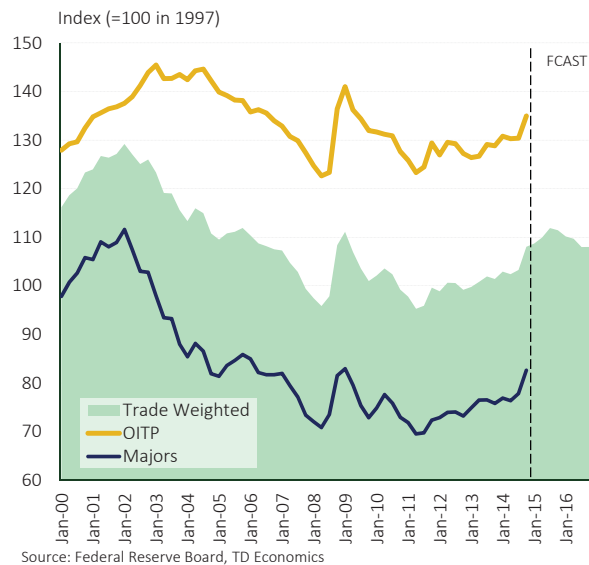


10

Dollar strength to persist



- Prospects for diverging monetary policy has lifted the dollar.
- Trade-weighted dollar at highest level since 2005.
- Value rising against both major trading partners as well as other important trading partners (OITP).
- Exchange rate may begin to weigh on exporters and corporate profits.

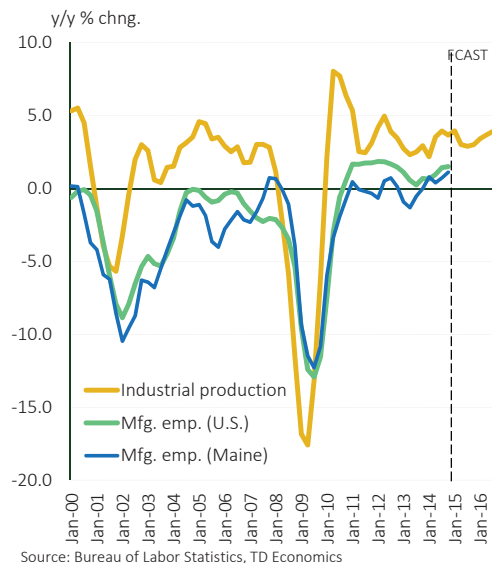


11

Manufacturing sector holding up in the face of higher dollar and lukewarm global growth



- Manufacturing payrolls rising robustly nationally and in Maine.
- Offshoring has slowed with U.S. manufacturing increasing competitive.
- Largest gains in industries exposed to domestic demand or inexpensive natural gas.
- In Maine, wood products and shipbuilding remain strong. Paper continues to decline, while electronics very capital intensive.

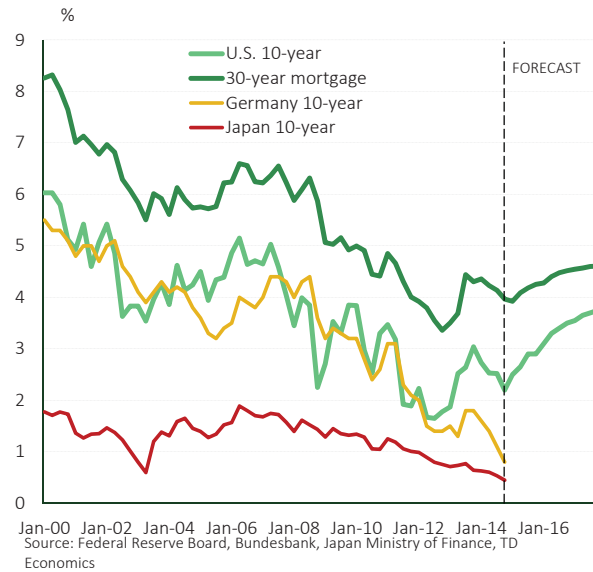


12

Long-term and mortgage rates to remain low



- The Fed continues to reinvest proceeds but stopped adding to its balance sheet.
- Fed getting ready to hike, but long rates have declined.
- Plummeting rates elsewhere and falling inflation expectations are making U.S. notes/bonds more attractive.
- Low rates will aid consumers, businesses, and housing.

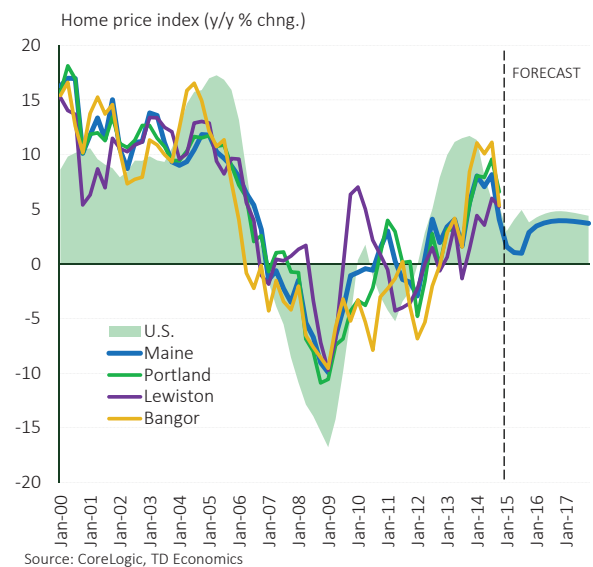


13

Home prices will continue to rise, but at a more moderate pace



- Home prices in Maine held up well during downturn relative to national home prices.
- Recovery has been slower to take hold.
- Future gains will be more muted as more inventory comes on the market.
- Gains in Maine likely softer as shadow inventory still elevated.
- Improving incomes should keep affordability at good levels.

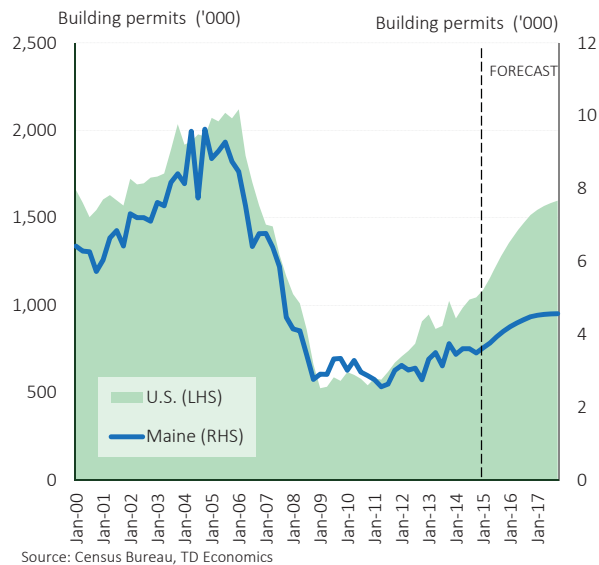


14

Homebuilding set to grind higher



- Homebuilding is in its fourth year of recovery but remains at half of mid-2000 pace.
- Unlikely to rebound to peak, but demographics suggest a pace of 1.5 to 1.6 million sustainable.
- Debt, weak income gains, and preferences leading more into multifamily housing.
- Maine homebuilding will improve but constrained by demographics.

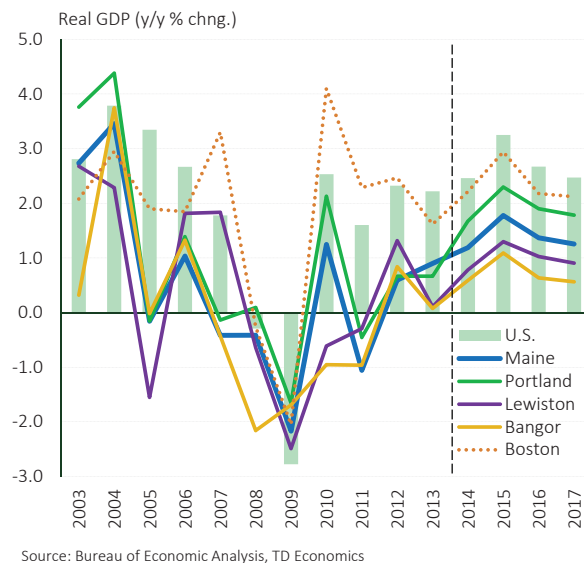


15

2015 looks to be the best year of the recovery



- Growth supported by:
 - Improving labor market
 - Low gasoline prices
 - Low interest rates
 - Recovery in housing
- Risks include:
 - Negative impact on energy producers
 - Exports under pressure
- Maine will have the best year in a decade but underperform:
 - Weaker demographics
 - Less boost from housing
 - Smaller share of high growth industry



16



Thank You

TD Economics
www.td.com/economics

This report is provided by TD Economics for customers of TD Bank Group. 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.