

Regional Analysis

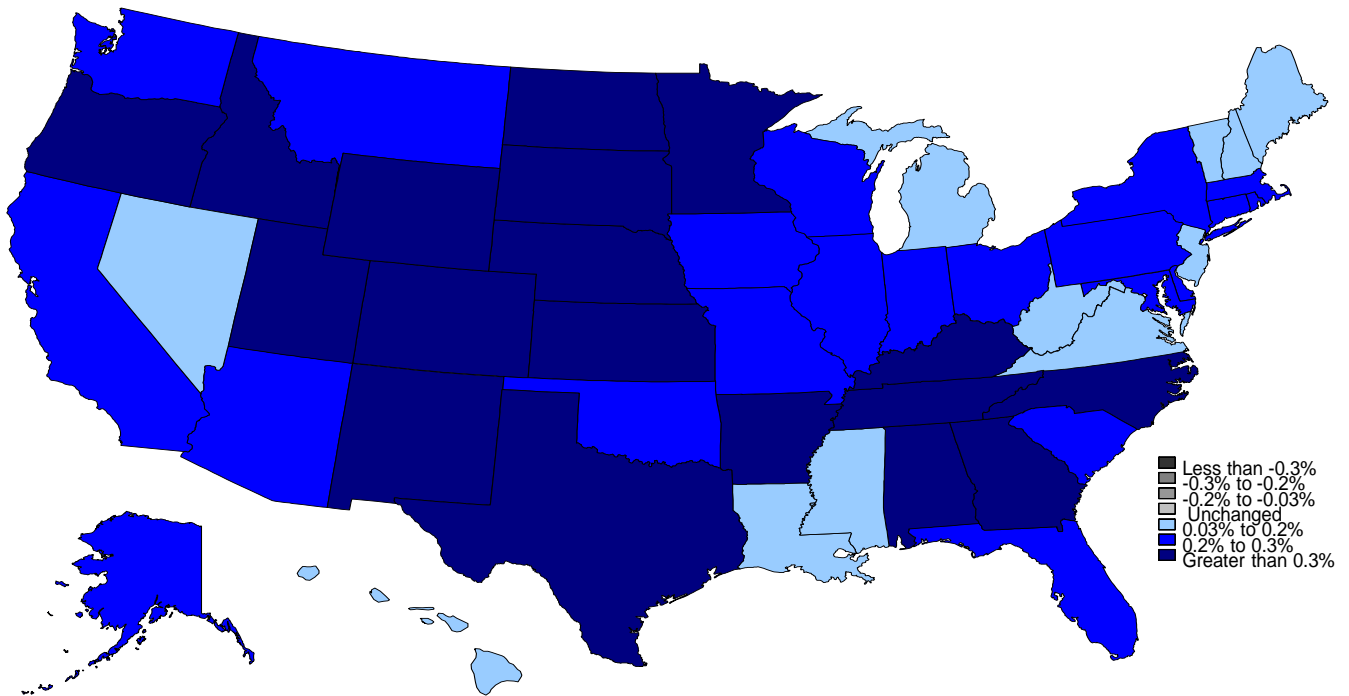
State Monthly Activity Indexes

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Majority of States Carry Momentum into 4Q14

- Activity increased in 40 states and remained unchanged in 10 states. In addition, the pace of expansion accelerated in 31 states, decelerated in 14 and was unchanged in 5.
- Despite falling oil prices, activity in North Dakota and Texas remains strong; other oil producing states such as Alaska and Louisiana feeling the pinch in October.
- The West Coast should accelerate as Asian stimulus takes hold and boosts growth in the region.
- For Alabama, activity has reversed course and is now trending towards our baseline of 1.8% growth in 2014
- Lower oil prices will transfer gains from energy producing states to energy-intensive states that benefit from lower input costs.

Chart 1
Activity Indexes, October 2014, 1-Month % Change



Source: BBVA Research
The state monthly activity indexes incorporate the latest sector-level employment data, exports, building permits and home price data for each state along with regional existing home sales. The value of the index corresponds to economic output where Jan-1996=100. A positive growth rate indicates economic expansion, and a negative value indicates contraction.

Chart 1

Across the U.S., Selected Indexes

| State | October 2014 | Avg. Annualized Growth Rate (%) | | | BBVA Forecasts* | | | Activity Rank |
|---------------------|--------------|---------------------------------|-------|--------|-----------------|------------|-----|---------------|
| | Index | 3 Mo. | 6 Mo. | 12 Mo. | Housing | Employment | GDP | 3 mma |
| Alabama | 144 | 5.0 | 3.3 | 2.7 | 1.9 | 3.3 | 1.8 | 4 |
| Arizona | 168 | 2.8 | 2.4 | 2.8 | 2.9 | 3.4 | 2.0 | 31 |
| California | 171 | 3.5 | 3.7 | 4.0 | 3.2 | 2.1 | 2.1 | 21 |
| Colorado | 179 | 4.7 | 4.6 | 4.5 | 6.8 | 2.6 | 3.6 | 7 |
| Florida | 152 | 3.5 | 3.4 | 4.0 | 1.6 | 3.3 | 3.9 | 20 |
| New México | 151 | 3.8 | 3.0 | 2.2 | 4.2 | 2.8 | 0.8 | 15 |
| North Dakota | 268 | 10.2 | 9.3 | 10.1 | 5.0 | 5.1 | 9.0 | 1 |
| Oregon | 236 | 5.3 | 5.2 | 6.4 | 7.4 | 4.6 | 2.9 | 2 |
| Texas | 200 | 5.1 | 5.4 | 5.5 | 2.9 | 3.6 | 5.1 | 3 |
| Utah | 206 | 4.9 | 5.3 | 5.5 | 3.7 | 4.8 | 4.0 | 5 |
| US | 155 | 3.6 | 3.6 | 3.5 | 7.1 | 1.9 | 2.0 | |
| Sunbelt | 175 | 4.2 | 4.1 | 4.2 | 7.7 | 2.8 | 3.2 | |
| Ex. Sunbelt | 148 | 2.7 | 2.9 | 2.9 | 5.2 | 1.7 | 1.7 | |

Source: BBVA Research

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Bottom Line

In October, activity picked up in a number of states that experienced slow growth in the first half of the year. For example, Alabama, which ranked amongst the slowest growing states in the country, rebounded in October and experienced the fourth highest growth in the country from one month-ago. In fact, activity was spread across multiple sectors including business services, leisure and hospitality, retail and housing. This supports our expectations for solid growth in the remainder of 2014. Other states such as North Dakota and Texas are benefiting from substantial investments in drilling and exploration activity and unparalleled housing market strength, but could face headwinds as oil prices continue to fall. For Oregon and Minnesota, growth in manufacturing and trade are boosting economic activity in areas that are already expanding at an above average pace. Looking to the 4Q14, although indicators continue to point to the upside domestically, lower oil prices could weigh on activity in energy-producing states whereas the slowdown in Europe will likely produce slower growth in export dependent states on the East Coast. On balance, however, the welfare transfer from energy-producing states to energy-intensive states could jump start a handful of state economies which have lagged in the recovery. In fact, November's payroll numbers point to a strong 4th quarter for hiring outside of the mining sector, which should boost confidence and spending during the holiday season.

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