

Regional Analysis

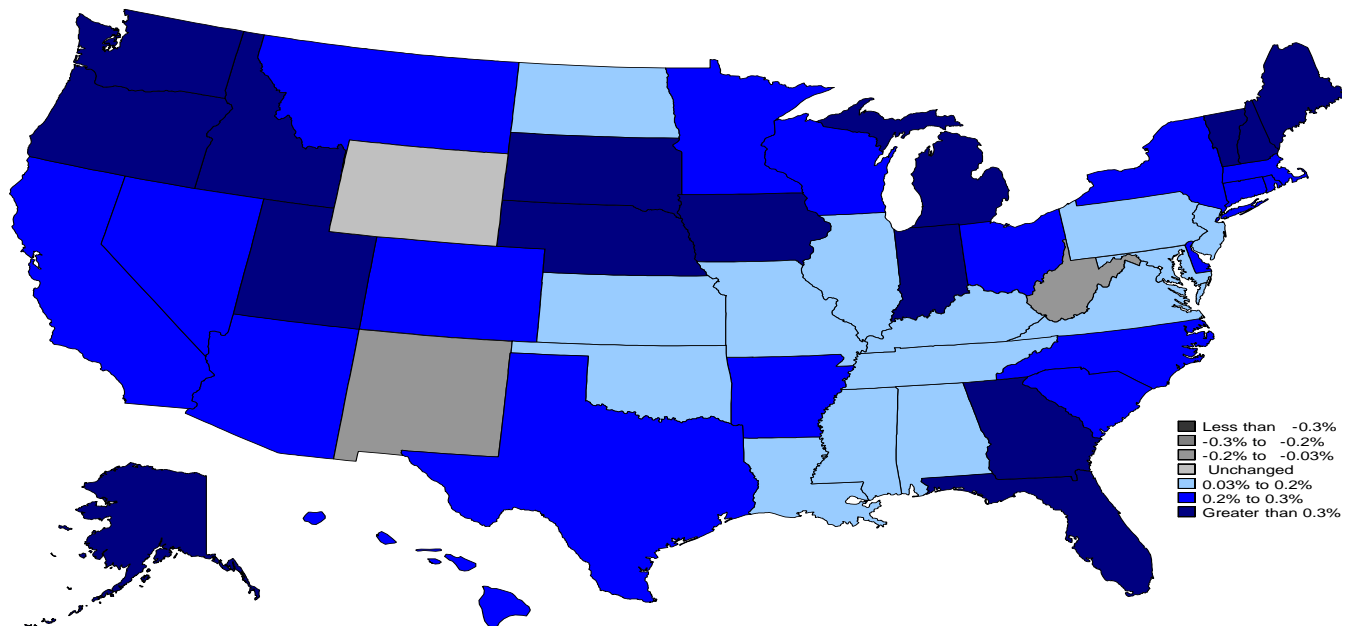
State Monthly Activity Indexes

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Upswing Expected After Transitory Weakness in 1Q15

- **In March, activity increased in 47 states, but the pace of expansion decelerated in the Sunbelt, with the largest deceleration in New Mexico**
- **Mining activity fell below trend in most states, while manufacturing, transportation, and utilities increased**
- **The Sunbelt's biggest gains were in construction and transportation, but the region's wholesale and retail trade lags behind the rest of the nation**
- **Texas, and other oil-dependent states, will continue to struggle in the low oil price environment, and with a stronger dollar, manufacturing and export activity will also suffer**
- **Consumers' propensity to save early income gains from low energy prices is likely to fade in 2015, leading to stronger consumption in non-energy states**

Chart 1
Activity Indexes, March 2015, 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 2
Across the U.S., Selected Indexes

March 2015		Avg. Annualized Growth Rate (%)			BBVA Forecasts*			Activity Rank
State	Index	3 Mo.	6 Mo.	12 Mo.	Housing	Employment	GDP	3 mma
Alabama	145	2.5	3.3	3.1	2.5	1.8	2.6	40
Arizona	170	3.3	3.8	2.9	3.8	2.5	3.1	27
California	175	3.5	3.1	3.0	3.1	3.5	3.4	22
Colorado	181	3.9	4.1	4.9	5.1	3.7	3.2	15
Florida	153	3.8	4.4	4.5	5.9	2.5	4.1	17
New México	152	2.5	3.7	3.3	2.8	0.6	0.4	41
North Dakota	273	4.9	6.5	7.1	7.0	2.7	1.0	5
Oregon	241	7.9	8.0	7.1	4.3	3.9	4.6	2
Texas	203	4.0	4.8	5.0	3.5	1.7	1.9	14
Utah	209	6.0	6.1	5.2	2.4	3.8	2.4	3
US	156	2.5	3.2	3.4	6.1	1.7	2.9	
Sunbelt	177	4.1	4.6	4.6	4.4	2.6	3.0	
Ex. Sunbelt	149	2.9	3.0	3.0	2.5	1.6	2.7	

Source: BBVA Research
 *6-month ahead annualized forecast ; GDP=2015 Growth Rate; Housing= FHFA Purchase Only Home Price Index & Emp.= BLS Nonfarm Payroll Employment

Bottom Line

In March, the Northwest and Northeast were the strongest regions for activity, experiencing a large rebound in housing with the end of winter weather. However, economic activity decelerated in the Sunbelt, especially in Alabama, New Mexico, and Texas, with a significant decline in the region’s mining industry. Texas, whose economy consistently ranks as one of the top nationwide for growth, has started to slow in response to oil-related headwinds: low oil prices and a nearly unprecedented drop in drilling activity (active rig counts). Along with other oil-producing states, such as Oklahoma and North Dakota, Texas experienced wide-spread declines in employment. Particularly striking were declines in retail trade and food service and accommodation that shed four times as many jobs as the entire Texas mining sector. This dramatic drop could suggest that the stronger dollar, which impacts retail activity along the Texas-Mexico border and lowers the competitiveness of Texas exports, is creating additional headwinds for the Texas economy. Moreover, the benefits from higher consumption are not occurring simultaneously, as consumers are diverting windfall gains from lower energy prices to savings rather than consumption. Although energy prices have stabilized, downward risks remain as oil and gas production remains stubbornly high despite the drastic reduction in the number of active rigs. These risks include slower-than-expected demand and further dollar appreciation, which will have a negative impact on manufacturing and export activity. Moving forward in 2015, lower oil and gas prices should start to infuse confidence in the consumers and boost spending, which reaffirms our expectations of 2.9% growth in 2015

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