

U.S. Regional Economics

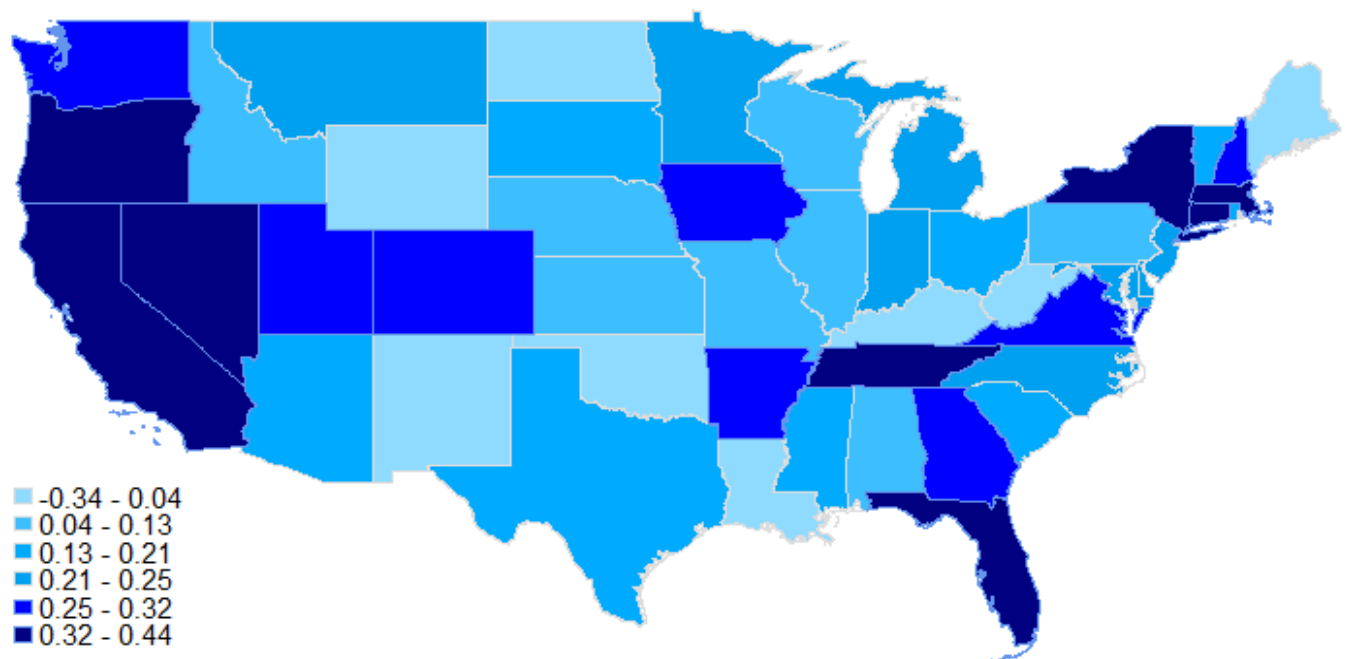
State Monthly Activity Indexes

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Acceleration in State-Level Activity Expected in 2H15

- In June, activity increased in 42 states, but the pace of expansion decelerated nationwide, especially in the Sunbelt.
- The states which experienced a strong pickup in activity in June were mostly concentrated in the Northeast and the West.
- Activity was above trend in industries such as financial activities, transportation and manufacturing.
- Activity in many oil-producing states has decreased MoM, and downside risks for these states will continue to depend on the path of oil prices.
- The rebound in several Sunbelt states, such as Texas and Alabama, will depend on how fast manufacturing activity and export growth can recover.

Chart 1
Activity Indexes, June 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

June 2015		Avg. Annualized Growth Rate (%)			BBVA Forecasts*			Activity Rank
State	Index	3 Mo.	6 Mo.	12 Mo.	Housing	Employment	GDP	3 mma
Alabama	144	1.6	2.1	2.8	2.5	0.2	1.5	39
Arizona	167	1.2	2.4	2.9	3.8	-0.7	1.8	41
California	177	3.4	3.7	3.3	3.1	2.3	3.4	14
Colorado	181	2.7	3.6	4.4	5.1	2.0	3.2	27
Florida	155	4.2	4.1	4.5	5.9	3.3	4.1	7
New México	148	-0.3	0.9	2.4	2.8	-0.6	0.3	45
North Dakota	253	-2.2	0.9	4.1	7.0	-4.3	0.1	50
Oregon	224	5.2	6.4	6.7	4.3	2.2	3.2	1
Texas	209	2.3	3.3	4.5	3.5	0.6	1.9	32
Utah	199	3.1	4.8	5.0	2.4	3.2	4.0	20
US	156	1.7	2.5	3.1	6.1	1.7	2.5	
Sunbelt	179	2.8	3.6	4.3	4.4	2.6	2.9	
Ex. Sunbelt	148	2.5	2.7	2.8	2.5	1.7	1.7	

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 June, the majority of states experienced an increase in activity, with Connecticut, Massachusetts and Oregon leading the pack. The major causes for each state’s spike in activity were diverse: Connecticut’s construction activity was above trend, while Massachusetts’ transportation industry was the strongest nationwide and Oregon’s retail sales outpaced the nation. However, one uniting factor among these states is their strong renewable energy and clean tech sectors, which have surged despite the decline in oil prices. In the 2015 U.S. Clean Tech Leadership Index, Connecticut, Massachusetts and Oregon make up the top three; the rest of the top five consists of Colorado and New York, which also expanded in June.¹ As a whole, the Sunbelt lagged behind the rest of the nation in exports and manufacturing, but was relatively strong in terms of building permits, nonfarm payrolls and retail sales, which could indicate a potential boost for consumption and housing activity as we move into 3Q15. However, even within the Sunbelt, activity is mixed; for example, growth in real personal incomes and retail sales was stronger in Florida and California versus Texas and Alabama, indicating varying consumption patterns in the region. In terms of the downside risks from continued declines in oil prices, there is growing evidence of recession in North Dakota and negative employment growth in other oil-dependent states such as Alaska, Wyoming and Oklahoma. In fact, North Dakota, in 2Q15, experienced its worst quarterly contraction in employment since 3Q80, while in June, Alaska experienced the largest month-over-month decline since July 1977. Unlike other oil-dependent states, Texas’s activity was relatively strong with solid expansion in its information, education and health services and professional services industries. In fact, on a seasonally-adjusted basis, after two consecutive quarters of negative job growth, the oil & gas extraction and support activities for mining sectors added jobs in June. Nevertheless, expectations for future growth in Texas will depend on oil prices, which are likely to remain low for the foreseeable future. With this in mind, we continue to expect Texas growth to be 1.9% in 2015, increasing to 2.9% in 2016.

¹ Clean Edge, <http://goo.gl/I5hFbV>

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