

U.S. Regional Economics

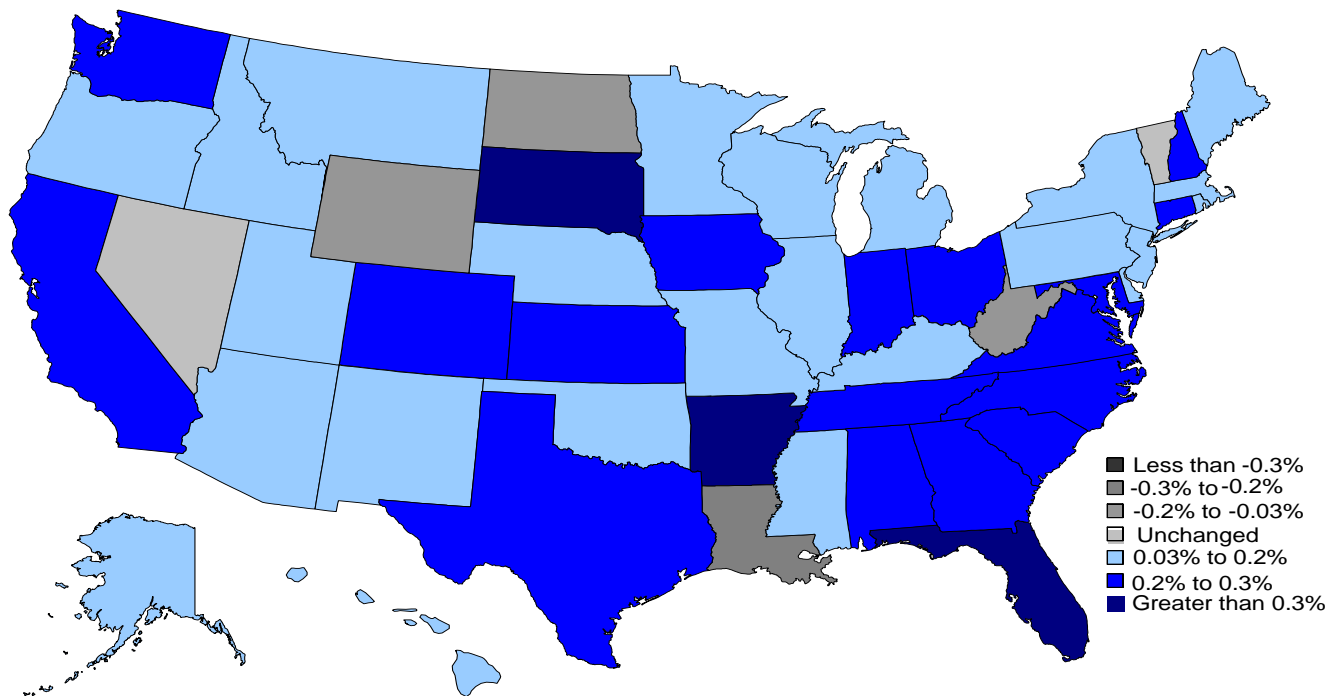
State Monthly Activity Indexes

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States Gathering Momentum into Fourth Quarter

- In September, activity increased in 44 states, but the pace of expansion decelerated nationwide
- Activity accelerated in the Sunbelt, especially in AL and FL, with the strongest pick-ups in the leisure and construction sectors
- Mining activity continues below trend in TX, but transportation and manufacturing activity in the state accelerated
- Manufacturing activity continues to be held back in the majority of states, including FL and AZ, due to the strong dollar and weak foreign demand
- Low oil prices will continue to weigh down the oil-producing states of LA, WV, ND and WY, which experienced the greatest decline in MoM activity in September

Chart 1
Activity Indexes, September 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

September 2015		Avg. Annualized Growth Rate (%)			BBVA Forecasts*			Activity Rank
State	Index	3 Mo.	6 Mo.	12 Mo.	Housing	Employment	GDP	3 mma
Alabama	145	2.3	2.0	2.6	2.2	1.1	1.5	28
Arizona	168	2.9	1.9	3.0	4.5	2.3	1.8	20
California	178	3.6	3.5	3.5	4.4	2.1	3.4	5
Colorado	182	3.2	2.8	3.6	5.2	2.5	3.2	16
Florida	156	3.9	4.0	4.3	5.1	1.9	4.1	3
New México	149	0.4	0.1	1.8	-1.2	0.9	0.3	45
North Dakota	257	-3.1	-2.6	1.6	7.3	3.3	-1.7	50
Oregon	226	4.9	5.1	6.5	4.9	1.7	3.2	1
Texas	211	2.4	2.3	3.7	2.0	0.2	1.9	25
Utah	200	2.4	2.8	4.6	3.7	1.4	4.0	27
US	157	1.7	2.3	2.9	4.8	2.0	2.5	
Sunbelt	180	3.4	3.1	3.9	4.0	2.0	2.9	
Ex. Sunbelt	149	2.2	2.3	2.7	3.6	1.1	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 September, activity in the Sunbelt outpaced the rest of the nation in nearly all sectors. According to the SMAI, Alabama and Florida ranked among the fastest growing states in the country, with substantial pick-ups in leisure and construction activity, while Texas's education and transportation industries accelerated. Although mining activity in the Sunbelt has increased relative to the rest of the nation, steadily declining rig counts in the area's key tight oil and shale gas plays indicate further cuts in drilling activity. Rig counts in the Permian, Eagle Ford and Haynesville regions have dropped an average 52% since the beginning of the year. The lack of momentum in the energy sector is expected to be carried over into 4Q15, as oil and gas firms surveyed for the Federal Reserve's Beige Book anticipate further defaults, layoffs, mergers and acquisitions. Additionally, the trend of prolonged low oil prices will continue to weigh down oil and gas-producing states, especially Louisiana, North Dakota, Wyoming and West Virginia. Some of these states are also among the most energy-intensive, hinting that a transfer of gains from energy producers to energy consumers has not taken place. In addition, in line with September's industrial production report, manufacturing output continues to be held back in several states, including Arizona and Florida, by weak foreign demand and higher competition from exports. In this report, housing was the shining star throughout the nation, with existing home sales above trend in every state and especially strong in the South and the Northeast. We expect that stronger growth in 4Q15 will offset weakness from the beginning of the year, reaffirming our baseline of 2.5% in 2015.

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