

State Monthly Activity Indexes

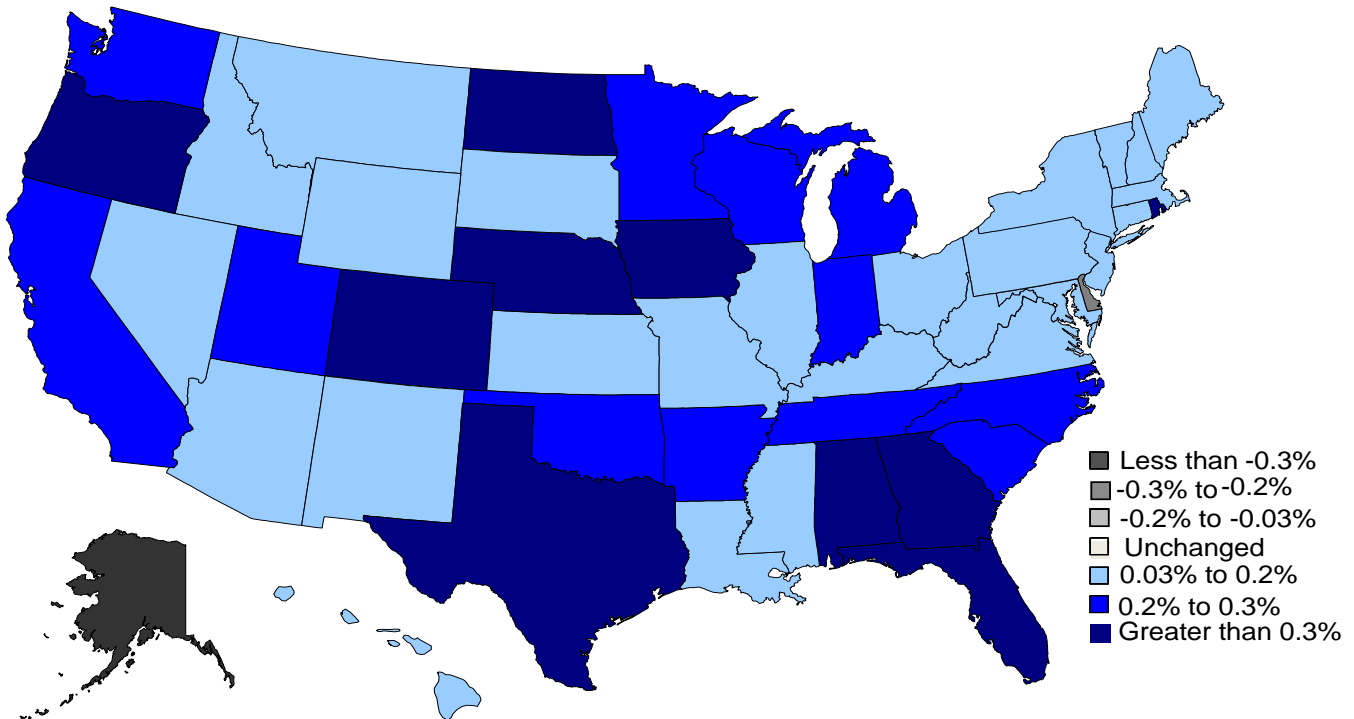
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Regional recovery still on track in spite of pullback in expectations nationally

- Activity increased in 48 states continuing a trend of solid and far-reaching growth in '17
- Auspicious housing market conditions and stronger global trade produced tailwinds for handful of states
- Momentum slowed in California and Arizona, but overall conditions continue to suggest moderate to strong growth in 2H17
- For the Sunbelt, growth fundamentals improving in states exposed to the upside of the oil drilling rebound while lower oil prices and improved global demand will benefit energy-intensive and export-oriented states
- States with greater business cycle synchronicity with U.S. like IL, NC, OH & SC, will grow at a slower pace in 2017 given downward bias to national forecast

Chart 1. Activity Indexes, May 2017, 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

| May 2017 | | Avg. Annualized Growth Rate (%) | | | 2017 BBVA Forecasts | | | Activity Rank |
|--------------|-------|---------------------------------|-------|--------|---------------------|------------|------|---------------|
| State | Index | 3 Mo. | 6 Mo. | 12 Mo. | Housing | Employment | GDP | 3mma |
| Alabama | 143 | 3.3 | 2.8 | 2.3 | 2.2 | 1.2 | 1.1 | 18 |
| Arizona | 168 | 2.0 | 2.0 | 2.5 | 5.5 | 1.5 | 1.7 | 38 |
| California | 190 | 3.6 | 3.4 | 3.6 | 5.8 | 1.4 | 3.3 | 14 |
| Colorado | 189 | 4.4 | 4.1 | 3.8 | 8.0 | 1.6 | 3.1 | 4 |
| Florida | 164 | 3.5 | 3.8 | 3.7 | 7.6 | 2.1 | 3.6 | 16 |
| New Mexico | 152 | 4.0 | 3.8 | 2.3 | 4.2 | 0.9 | 1.0 | 7 |
| North Dakota | 247 | 4.9 | 2.5 | 0.1 | 2.9 | -0.4 | -2.3 | 2 |
| Oregon | 226 | 6.4 | 6.5 | 6.1 | 8.6 | 2.1 | 2.6 | 1 |
| Texas | 213 | 4.0 | 4.0 | 3.4 | 5.7 | 2.4 | 4.3 | 9 |
| US | 161 | 2.7 | 2.8 | 2.8 | 4.7 | 1.5 | 2.1 | |
| Sunbelt | 188 | 3.6 | 3.6 | 3.5 | 6.1 | 2.0 | 3.4 | |
| Ex. Sunbelt | 152 | 2.3 | 2.6 | 2.4 | 3.8 | 1.5 | 1.6 | |

Source: BBVA Research

Bottom Line

State activity increased in over 95 percent of the U.S., as regional conditions improved on the back of stable oil prices and stronger global growth. In fact, activity accelerated in Louisiana, North Dakota and Wyoming, which were areas that faced substantial headwinds in 2015 and 2016 from the slowdown in the mining sector. Texas is once again a top performer at the regional level, as rig counts rise and oil exports begin to ramp up. Strong demand for Texas light-sweet crude oil internationally and lower restrictions on crude oil exports suggest exports will continue to accelerate throughout 2017.

Easing pressures on the dollar, rising commodity prices and increased global trade have led above average export growth in Oregon, Arizona Florida, Wyoming, Hawaii, Missouri and Ohio. Domestically, sky-high consumer confidence, rising incomes and stronger household balance sheets are driving domestic tourism activity in states such as Alabama, Alaska and New York. Fiscal challenges that plagued states like California also seem to be fading with government employment trending close to their pre-crisis peak. Housing market conditions in Alabama, Massachusetts, Pennsylvania Connecticut and New Jersey remain auspicious, suggesting prices should continue to trend positively for the foreseeable future. Although interest rates have edged up somewhat, there does not appear to be lower appetite for credit or a willingness to lend suggesting these positive trends should continue.

With recessionary conditions behind states impacted by the slump in global trade and commodity glut, consumer trends improving, supportive financial conditions and with more optimism in the small business sector we continue to GDP growth in 48 of the 50 states in 2017. Higher oil prices in the 2H17 could push the North Dakota and Alaska out of their prolonged slump, but our baseline remains for only modest increases throughout the rest of the year to a yearend price of around \$55 per barrel. In terms of growth, states with the greatest upside include Texas, Nevada, Utah, California and Colorado, which we expect to grow above 3% in 2017. Positive developments globally and high business confidence should also provide a healthy mix for states like Idaho, South Dakota and Ohio. Although the upside from any major federal policy changes seem less likely to occur in 2017, overall risks to state-level economies appear tilted to the upside for the most part barring any major shift towards protectionism from the current administration, which could dampen the outlook for states like Texas the rely heavily on trade and migrant labor.

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