

Regional Analysis

State Monthly Activity Indexes

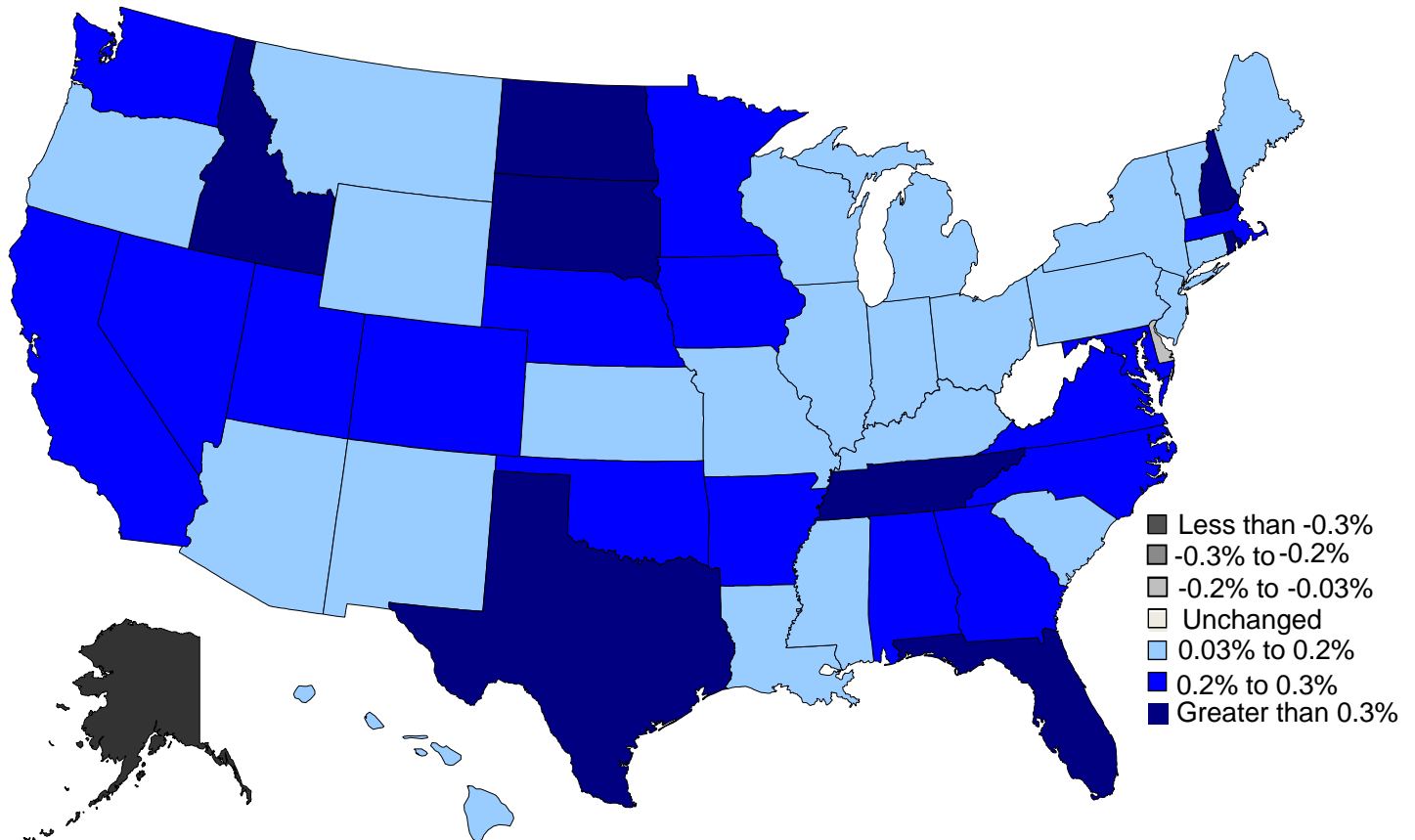
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Regional growth to improve in 2H17, as the impact from weakness in 1Q17 fades

- Economic activity increased in 47 states, and declined in AK, DE and WV
- Stronger global growth, a rebound in the mining sector and increased trade activity supporting regional growth
- Florida and Texas to face headwinds from hurricanes Irma and Harvey, but effects should be transitory
- Fundamentals in the Sunbelt region remain auspicious in spite of weather events
- California, Washington, Nevada and Utah to be top performers in 2H17

Chart 1. Activity Indexes, August 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

| State | August 2017 | Avg. Annualized Growth Rate (%) | | | 2018 BBVA Forecasts | | | Activity Rank |
|--------------|-------------|---------------------------------|-------|--------|---------------------|------------|-----|---------------|
| | Index | 3 Mo. | 6 Mo. | 12 Mo. | Housing | Employment | GDP | 3mma |
| Alabama | 144 | 3.5 | 3.4 | 2.7 | 2.2 | 0.5 | 1.0 | 14 |
| Arizona | 169 | 1.2 | 1.8 | 1.9 | 5.2 | 1.9 | 1.6 | 42 |
| California | 191 | 3.5 | 3.6 | 3.6 | 5.4 | 2.0 | 3.1 | 11 |
| Colorado | 190 | 3.3 | 3.8 | 3.6 | 7.7 | 3.3 | 2.1 | 16 |
| Florida | 165 | 2.4 | 2.6 | 2.3 | 7.4 | 2.8 | 3.4 | 29 |
| New Mexico | 153 | 1.7 | 2.9 | 2.7 | 2.9 | 0.8 | 1.0 | 38 |
| North Dakota | 250 | 7.6 | 6.2 | 2.8 | 3.9 | 1.9 | 4.1 | 1 |
| Oregon | 228 | 5.0 | 5.7 | 6.0 | 8.3 | 2.5 | 2.0 | 2 |
| Texas | 215 | 4.7 | 4.2 | 3.9 | 2.8 | 2.7 | 4.3 | 4 |
| US | 162 | 2.6 | 2.7 | 2.8 | 5.1 | 1.4 | 2.2 | |
| Sunbelt | 190 | 4.1 | 3.9 | 3.7 | 3.5 | 2.1 | 3.3 | |
| Ex. Sunbelt | 152 | 2.4 | 2.4 | 2.4 | 3.0 | 1.0 | 1.6 | |

Source: BBVA Research

Bottom Line

Regional economic conditions remain upbeat, as over 95 percent of the U.S. continues to show signs of moderate to high growth. Household balance sheets have strengthened, credit conditions remain favorable and growth abroad continues to improve over the previous year, supporting the broad-based growth domestically. In addition, the mining sector has experienced one of the most prolific turnarounds in history with real investment in drilling equipment increasing 68.7% year-over-year and employment in support activities for mining expanding 20.6% year-over-year. However, unlike the shale boom, gains in the state energy sector have not been ubiquitous, as employment in the mining sectors in New Mexico, Alaska, Colorado and Louisiana continues to contract.

In terms of regional labor market conditions, there has been a nontrivial drop in the unemployment rate (UR) in a handful of states. In fact, since January the unemployment rates in 38 states have dropped by an average of 0.5pp. In fact, the UR declined by 1.2pp, 2.1pp, 2.2pp and 1.3pp in North Carolina, Tennessee, Alabama and Michigan, respectively. Part of the drop in unemployment rates is due to meaningful gains in employment; however, for more than seventy percent of states, declining labor force participation explains the drop in the UR, which is consistent with the greying of the population and increased outflow of retirees from the labor force. For Oregon, the rate of employment growth above the rate of the population growth reduce the UR by 2.1pp, yet given that this is a young population the increase in participation added about 1.8pp, leaving the UR only 0.3pp lower than in January. Conversely, in Alabama, which has a greying population, the drop in participation shaved off 2.4pp from the UR with offsetting effects from changes in the employment-to-population ratio. This suggests that currently structural rather than cyclical changes in regional labor markets explain bulk of the decline.

Despite signs that the U.S. expansion is getting long in the tooth, conditions at the regional level have improved from a risk perspective, as only five states face recessionary conditions— higher than 50% probability in the next 12-months. For the majority of the country, we are maintaining our outlook for moderate growth in 2H17. With respect to the hurricanes, while the human and physiological cost of hurricane Harvey and Irma are irreparable, the negative effects from an economic perspective are likely to be transitory, and on net close to zero. As a result, we have revised down our GDP forecast for Texas and Florida for 2017 from 3.8% to 2.7%, and from 3.6% to 2.5%, respectively. However, the rebuilding efforts will likely provide a short-term boost to economic activity in 2018, offsetting the headwinds in the 3Q17. Efficient and timely management of the rebuilding resources will determine the speed and magnitude of the recovery.

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