RESEARCH

Economic Outlook

United States

Fourth Quarter 2011
Economic Analysis

- Although global growth is slowing, emerging economies are on track for a soft landing
- European efforts to alleviate financial tensions still leave key elements unresolved
- In the U.S., downside risks have increased as the cooling global economy, fiscal uncertainty and Europe's sovereign debt crisis remain in the spotlight
- Across the BBVA Compass Sunbelt, private-sector hiring is picking up pace and exports continue to propel activity

Index

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1. Editorial

During the remainder of the year, we will witness another round of fiscal negotiations aimed at avoiding a major fiscal crisis in the coming years. However, given how both political parties have behaved throughout the year, it is unlikely that they will reach a "grand bargain" anytime soon. This implies that political and fiscal uncertainty will stay high. This uncertainty can have damaging effects on economic activity if businesses and households remain cautious and delay investment and consumption decisions. Furthermore, additional monetary policy actions are partly dependent on the evolution of fiscal conditions during the coming months.

The degree of uncertainty may be one of the highest on record, because current fiscal uncertainty relates to all taxes and major spending items. Thus, the cumulative effect could explain why the recovery has been slow and why monetary policy actions have only provided limited relief. In fact, research also suggests that although the magnitudes of the impacts of fiscal uncertainty and monetary shocks on economic activity are similar, the duration of the former is twice as large as the latter.

At issue is how much longer an uncertain environment will last. To resolve uncertainty, Congress must strike a long-term deal. Congress not only will need to vote on a Joint Select Committee proposal if one materializes, but also deal with expiring stimulus policies, the Administration's new stimulus proposals and the 2012 federal budget. This means that fiscal uncertainty could drag well through the next presidential election, further dampening growth prospects. In this setting, kicking the can further down the road only increases uncertainty.

Congress has had ample opportunities to move forward and assure fiscal sustainability. There are at least 30 fiscal reform plans on the table, some of which date back more than a year. Although the proposals diverge ideologically across some issues, deals can be reached on others if both sides are willing to come to the center. Any long-term solution rests on a shared compromise that takes on sacred cows so that interest groups perceive that everyone is contributing to the solution.

Many experts agree that a long-term solution must address mandatory spending that includes Social Security, Medicare and Medicaid and other health programs. Together, these account for more than 40% of total federal outlays. Under current legislation, mandatory spending will average around 13% of GDP over the next 10 years, about three percentage points higher than the average during 1976-2006. This increase is driven by an aging population, higher life expectancy and excessive cost growth related to poor competition and overregulation in some healthcare sectors.

Another obvious candidate for reforms centers on the tax code. Sensible changes should reduce collection and compliance costs, and lower the tax gap –the difference between what people owe and what they pay. Together, these amount to around half a trillion dollars per year. Some studies suggest that the number of hours used to comply with tax regulation is equivalent to almost 4 million full-time workers, which is greater than the number of elementary school teachers in the country. A big step in the right direction would be to simplify tax regulation and eliminate the many loopholes and special benefits that reflect past incentives and needs and are thus out of sync with current challenges.

Achieving fiscal sustainability is not about increasing taxes or reducing spending. Policymakers must work to find more balanced and far reaching solutions. Over time, higher public spending crowds out private investment and requires ever higher taxes that reduce incentives to invest, work, save and innovate. To promote growth and ensure long-term fiscal sustainability, political leaders must build a new tax system that supports private-led economic expansion. This system should emphasize neutrality, fairness and efficiency while providing a check to uncontrolled spending to mitigate uncertainty.

Sincerely,
Nathaniel Karp
BBVA U.S. Chief Economist

2. Global Outlook

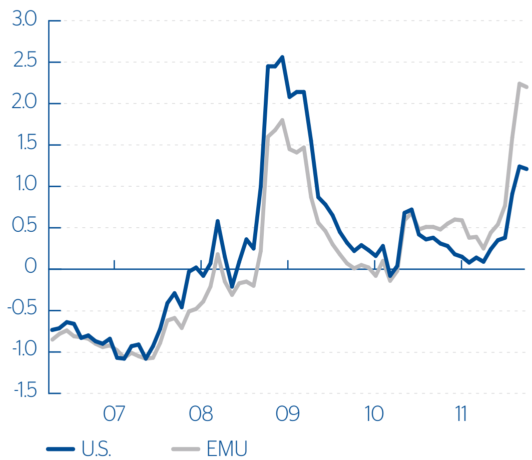
The global economy is slowing down and the outlook is heavily dependent on the resolution of the European debt crisis. Risks are strongly tilted to the downside.

The outlook for the global economy has worsened during the past few months, driven mainly by four factors that are still exerting influence. First, lower than expected economic growth in developed economies. Although growth accelerated in the U.S. during the third quarter, economic activity in Europe, which held up well in the first quarter, is now on a clearly decelerating path. Second, the sovereign debt crisis in Europe has intensified and turned more systemic. While decisions announced at October's summit proceed in the right direction, key elements are still unresolved. Uncertainties surround the real firepower of the mechanisms for providing sovereign liquidity (a leveraged European Financial Stability Fund or EFSF), the restructuring of Greek debt held by private investors and a clear roadmap for advancing European governance towards a fiscal union. Third, the feedback between sovereign debt concerns and the health of the European financial system has intensified and financial tensions in Europe have reached levels, in many respects, higher than in the aftermath of the Lehman Brothers' collapse in October 2008. This increases the risks of a negative impact on economic activity. Finally, higher global risk aversion has increased financial market volatility significantly, spilling over into riskier assets, including emerging economies for the first time since 2009.

In this context, we revised our global growth forecasts downward by 0.3pp to 3.9% in 2011 and 4.1% in 2012, mostly due to lower expected growth in advanced economies (U.S. and Europe, compensated in part by Japan), and less-than anticipated growth in emerging markets.

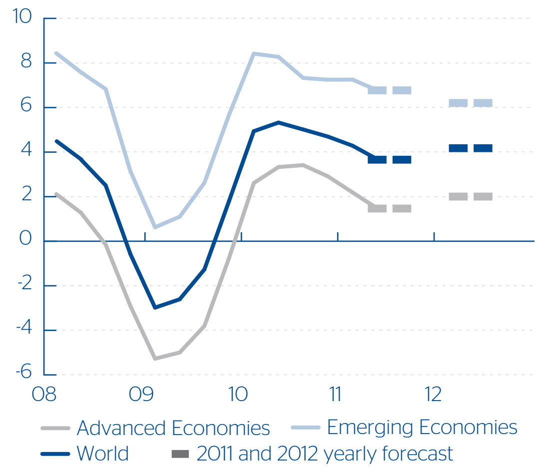
Although these are still robust growth rates, risks are strongly tilted to the downside, in the short term, hinging on the evolution of the sovereign debt financial crisis in Europe. In particular, a quick reduction of financial stress in Europe is needed to avoid a sharp effect on growth there and in other regions through financial exposures and global risk aversion.

Chart 1
BBVA Financial Stress Index



Source: BBVA Research

Chart 2
Global GDP Growth, YoY % change



Source: BBVA Research / IMF

The October European summits took some steps in the right direction, but left key elements unresolved. This does not bode well for the reduction of financial stress in Europe.

In our view, there were five main points that needed to be successfully addressed at the October EU summits: (i) tackling the sustainability of Greek debt; (ii) erecting sovereign firewalls in the EMU; (iii) pushing for further reforms in peripheral countries; (iv) strengthening the banking sector; and (v) advancing euro area governance. Although some of the more technical details still need to be determined, the recent summits have taken important steps in the right direction, but have not definitively addressed most of these points. First, private bondholders of Greek debt were asked to take a voluntary haircut of 50% –much higher than agreed in July– but doubts still linger about participation in the exchange. Even with full participation, the solvency of Greece remains conditional on measures that need to be taken in this country. Second, the EFSF will be leveraged as an insurance mechanism and complemented with outside investors (including possibly the IMF), but it is unlikely that any of the specifics are ready before December. Thus, it will take many weeks to ascertain its effectiveness vis-à-vis private investors, and hence the ECB will be needed as a buyer-of-last-resort for sovereign debt, against the reticence of core European countries. Third, it is welcomed that more economic reforms are now on the agenda of some countries (notably Italy), and that as the help of the EFSF will be triggered by a request from countries and against conditionality, the likelihood of those being implemented increases. At the same time, the recapitalization of the banking sector is being done inefficiently, compensating a moderate stress testing of banks' balance sheets –using market prices for sovereign portfolios but not for so-called "legacy assets"– with a significant increase in capital requirements (9% core tier 1 capital). This risks a sudden and sharp deleveraging of European banks, with negative effects on the supply of credit without cleaning the balance sheets of banks in the euro area. Moreover, a long-term liquidity provision mechanism is not in place yet, even though this is extremely important for banks to obtain financing. Finally, there have been some advances in European governance, but there is no clear roadmap to a fiscal union or Eurobonds, a key element to make the monetary union more credible in the long-run.

As we have mentioned in the past, partial solutions will likely help prevent a further escalation of financial tensions, but they will remain elevated, increasing downside risks for economic activity in the eurozone. The agreements still leave doubts whether the necessary structure to prevent contagion and a systemic event from a Greek debt restructuring is in place: a large enough EFSF with the ECB as debt-buyer-of-last-resort and cleaned and recapitalized banks' balance sheets with access to financing. Without all of them, markets will continue to factor increased fatigue for reforms in Greece and fatigue for further bailouts in core countries, which increases the probability of a credit crunch and a recession in Europe, with global spillovers.[1]

Emerging economies are on track for a soft landing, but with increasing external headwinds.

Emerging economies continue to grow strongly, supported by the resilience of domestic demand. High commodity prices in Latin America and export growth in Asia also contribute to a strong growth outlook, which is on track for a much-awaited soft landing that would be welcome in some countries. Renewed turmoil in Europe and the U.S. already represents strong headwinds from financial markets in both regions –reflected in increased market volatility, depreciated exchange rates and reduced capital inflows. However, many countries also enjoy sizable buffers –stronger public finances and better macroeconomic management than in the past– and are well positioned to introduce policy stimulus to counter weaker external demand. Overall, a more negative external environment has switched the focus in emerging countries from overheating to downside risks and, increasingly, the possible need for policy support.

1 See "Channels of global contagion in the event of a disorderly default in Europe", Box 1 in the July 2011 Global Economic Outlook for an outline of the channels of transmission and global impact of a disorderly default in Europe.

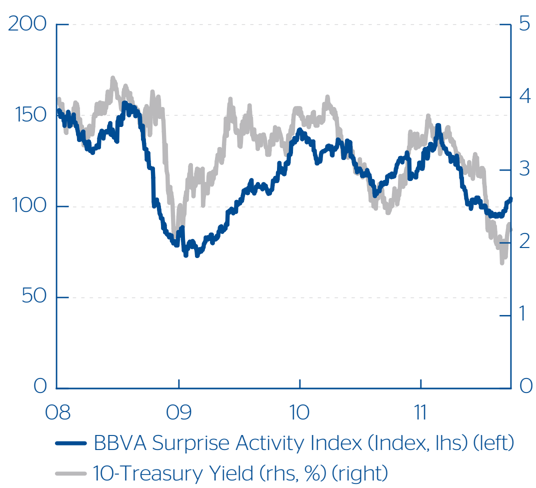
3. U.S. Outlook

The U.S. economy has struggled to make a strong recovery, and mixed economic reports throughout the past few months have furthered uncertainties regarding the outlook. The second half of 2011 has started out stronger than expected, with 3Q GDP growth hitting 2.5% (annualized) following a modest 0.4% and 1.3% in 1Q and 2Q, respectively. Personal consumption expenditures contributed most to the acceleration in GDP, helping diminish fears of a double-dip recession. However, improvement in economic activity has not been enough to boost consumer and business expectations.

Despite upward revisions to employment data for 3Q, job growth remains slower than in early 2011 and job availability has not been enough to decrease the unemployment rate. Manufacturing reports have been conflicting, with the ISM suggesting improvements but some regional Federal Reserve surveys noting continued slowdowns in the sector. While some housing data has been better than expected, an increase in distressed properties continues to threaten the market. Recent changes to the HARP and Federal Student Loan Program will have a minimal effect on the economy and will not significantly help the labor market. Although mixed economic data have furthered uncertainties regarding the future, we see more upside risk to our baseline scenario for 2011 given the higher than expected 3Q GDP growth. However, downside risks increase for 2012 as more long-term factors come into play, including fiscal reform, global slowdown and European sovereign debt.

Chart 3

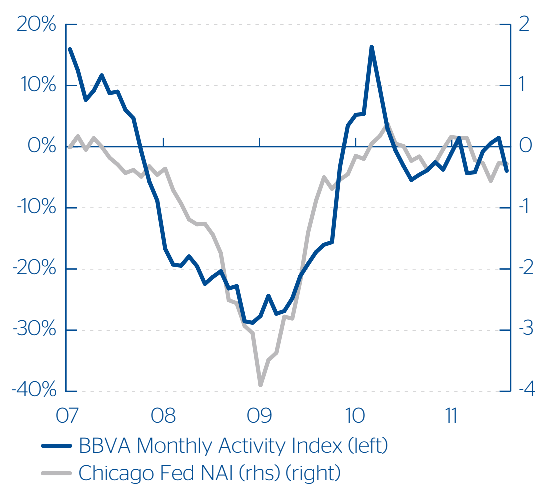
BBVA Surprise Activity Index & 10-year Treasury Yield



Source: BBVA Research & Haver Analytics

Chart 4

BBVA & Chicago Fed Monthly Activity Indexes, YoY % change & 3mma



Source: BBVA Research & Haver Analytics

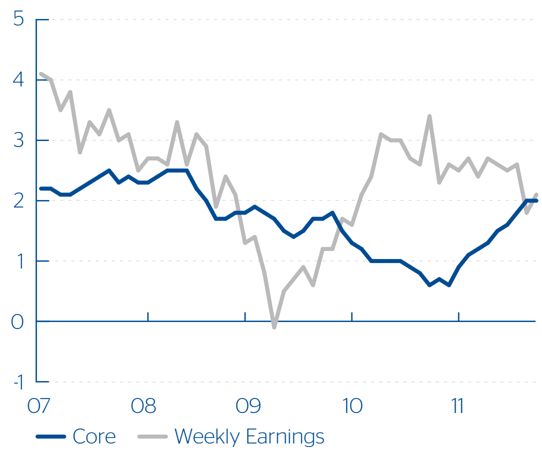
Looking ahead, we expect that personal consumption expenditures (PCE) will continue to expand at a moderate pace as gradual improvements in the employment situation help reduce uncertainties regarding future earnings. However, we expect that employment growth will remain low and the unemployment rate will be stubbornly high, ultimately limiting real PCE growth.

On the inflation front, high food and energy prices continue to exert pressure on headline inflation, while shelter and medical care have pushed core inflation higher. Upward trends in employment costs reversed last quarter, and global slowdown and large resource slack will help keep inflation under control. Core inflation might exceed the Fed's maximum rate in the implicit inflation target range of 1.5-2.0% but will remain within the comfort zone at least in the medium term. Although short-term inflation expectations have increased, long-term expectations remain anchored. We expect that headline inflation in 2011 will slightly surpass our baseline scenario.

The fiscal situation in mid-August left a sour mark in 3Q11, and the rise in policy uncertainty is likely to continue as the Dodd-Frank regulation unfolds, the Super Committee proceeds and the 2012 Presidential election heats up. The latest FOMC statement and Fed governors' speeches present a less optimistic view on the U.S. economy for the next few years, and the Fed has explicitly committed to keeping interest rates low through mid-2013. Operation Twist will put pressure on long-term interest rates, but the impact on economic recovery will be limited. Weak growth and downside risks favor expansionary monetary policy and the latest trends suggest a flattening yield curve. In addition, elevated risk perception and a flight to safety are supporting the prices of Treasuries, as capital is flowing into the U.S. due to the lack of worldwide alternatives. The Fed will continue to monitor economic data and is prepared to act again if growth prospects deteriorate significantly.

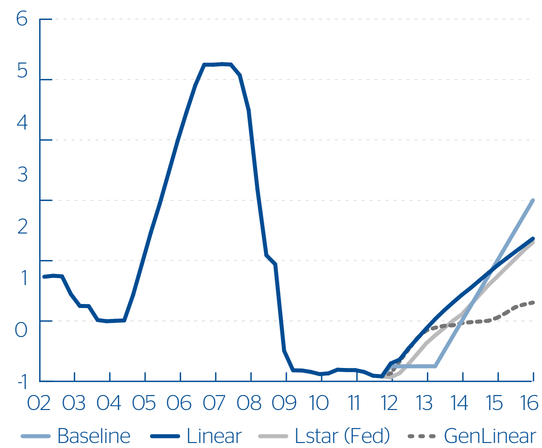
While our current baseline scenario does not assume that the U.S. economy will fall back into recession, we do see increasing downside risks compared to previous quarters. Much of the economic recovery weighs heavily on fiscal reform to lift us out of this rut, and no progress could be detrimental. In addition, further housing adjustment and increased deleveraging will limit upside growth potential. On the global front, risks include deeper contagion from the European sovereign debt crisis and hard landings in emerging markets. Given the increasing probabilities of these risk scenarios, we expect slower economic recovery and later rate hikes than our previous baseline scenario.

Chart 5
Core Inflation and Hourly Weekly Earnings, YoY % change



Source: Haver Analytics

Chart 6
Fed Funds Models, %



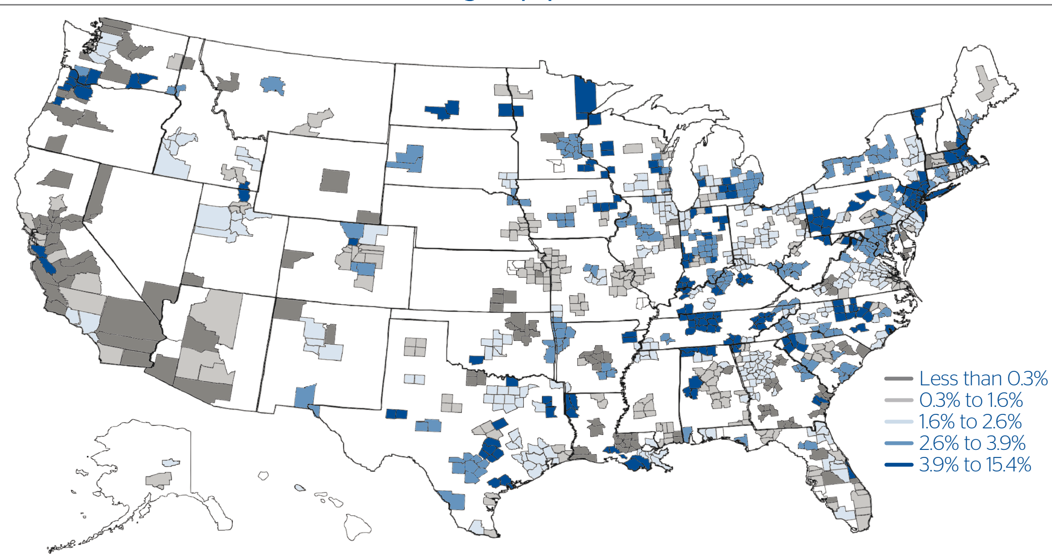
Source: BBVA Research & Haver Analytics

4. BBVA Compass Sunbelt Outlook

Widespread economic growth has not yet returned to all areas of the country. Relative to the U.S. as a whole, the BBVA Compass Sunbelt region experienced a slower recovery in 2010, but the pace picked up this year. Recently-released advance estimates of GDP at the Metropolitan Statistical Area (MSA) level confirm this assessment, as exports, manufacturing and mining activity led the growth charge in 2010 while the service economy lagged and the construction sector remained sidelined. As the map below reveals, 2010 economic growth surged in many MSAs throughout Indiana, Michigan, Pennsylvania and New York. Real GDP in the top six MSAs expanded above 8% due to their industrial concentrations.

Elizabethtown, Kentucky took first place with 14% annual growth due to the federal government and further consolidation of U.S. military bases in the area. Nipping at its heels, San Jose-Sunnyvale-Santa Clara, California took the number two spot, as the technology boom continues and U.S. companies enter foreign markets. Robust international trade supported growth there despite California's statewide woes. Two Indiana MSAs (Elkhart-Goshen and Columbus) placed next, as manufacturing accounts for nearly 50% of their respective GDPs, and the rebound in manufacturing activity linked to both domestic and foreign demand contributed 100% of this growth. Finally, Midland, Texas and Lafayette, Louisiana placed fifth and sixth, respectively, due to the rise in oil prices and drilling activity.

Map 1
Real GDP Growth 2009-2010, YoY % Change, by quintile



Source: BEA and BBVA Research / Haver Analytics

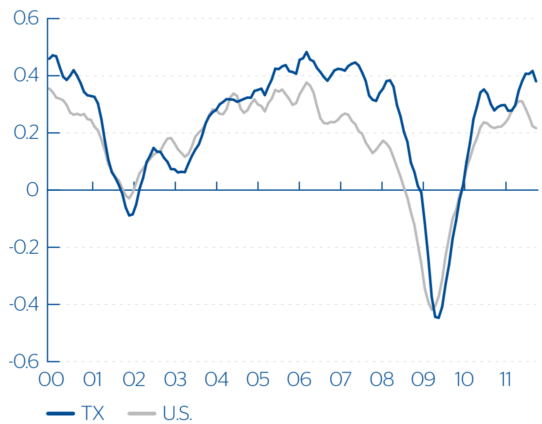
The map underscores the important contributions of industrial concentrations to growth, and reinforces our view that the economic recovery was not yet self-sustaining as we moved into 2011. The recovery has been dependent on expansionary fiscal and monetary policies throughout the world. In this environment, the Sunbelt's GDP growth lagged the U.S. average. The many areas across California, Arizona and Florida that had a relatively larger share of services in their GDP and were hit hard by the housing crisis saw very little economic growth. Indeed, when we consider the decline in the number of construction sector employees during the recession as a percentage of the labor force at the state level, five of the seven BBVA Compass Sunbelt states rank among the bottom 10 states. This statistic reflects not only the intensity of the housing adjustment, but also the dependency of these states on a rebound in construction.

In 2011, continued population growth in the Sunbelt, a return of construction activity and sustained foreign demand have all contributed to hiring in both the goods-producing and the service-providing sectors. As we enter 2012, domestic service sectors will increase their contribution to growth, as manufacturing activity moderates. Foreign demand is softening because emerging economies are taking measures to stem inflationary pressures and dampen growth. Additionally, as the flow of federal stimulus funds dries up, the economy will be left to stand on its own. Although the strength of the rebound in the construction sector remains a question, the service economy continues to strengthen, and the Sunbelt will grow relatively faster than the U.S. average in 2011 and 2012.

Texas

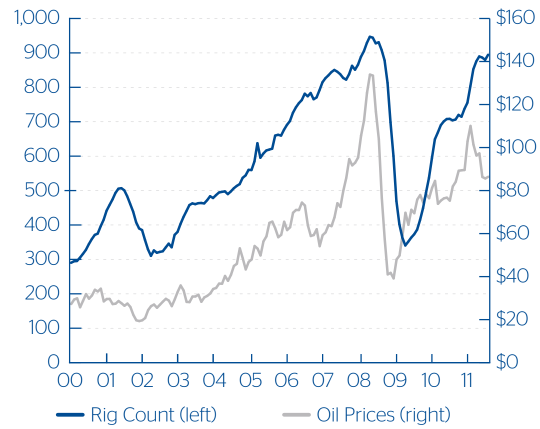
The state continues to lead the nation in job creation in 2011 due partly to the energy sector. High oil prices have kept the total rig count is high and it is approaching its previous peak. But, the job gains have not been isolated in the energy sector. Manufacturing continues to add jobs, and will realize a net increase in employment in 2011 first time in three years. Meanwhile, employment creation in construction continues to improve at a modest pace as new projects are undertaken. The construction sector will continue to contribute to economic growth in Texas. When we consider the gap between peak construction employment prior to the onset of the recession and today, as a share of the labor force, Texas ranks 5th, with only 0.6% of the labor force still sidelined in construction. This statistic is in stark contrast to Nevada where this gap amounts to nearly 7% of the labor force.

Chart 7
BBVA Compass SMAI, MoM % Change, 3mma



Source: BBVA Research

Chart 8
Rig Count and West Texas Crude Oil Prices



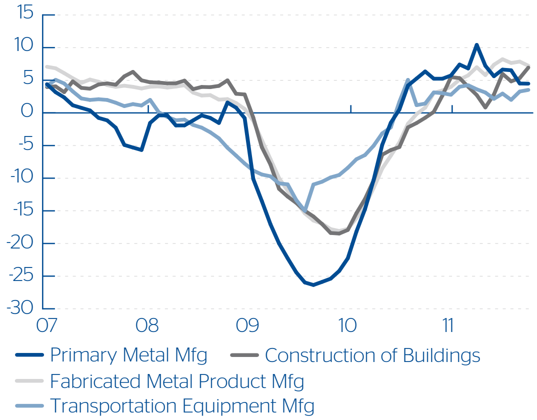
Source: Dallas Fed / Baker Hughes

Skilled employment in professional and business services has surpassed its previous peak, and employment in accommodation and food services continues to ascend. However, ongoing gains in the service sectors are clouded by substantial losses in local government employment – over 40,000 during the past year alone.

Retail sales through the summer were growing robustly as consumer confidence remained stronger than in the rest of the nation; however, in recent months, the West-South-Central Region Confidence Index is displaying a downward trend which would indicate a moderation in the pace of retail sales. Through 2Q11, total state tax collections continued to grow, buoyed by higher retail sales and stronger economic activity. Yet, the state government still faces a $9 billion budget deficit for FY2013, and will need to make additional cuts or find new sources of revenue.

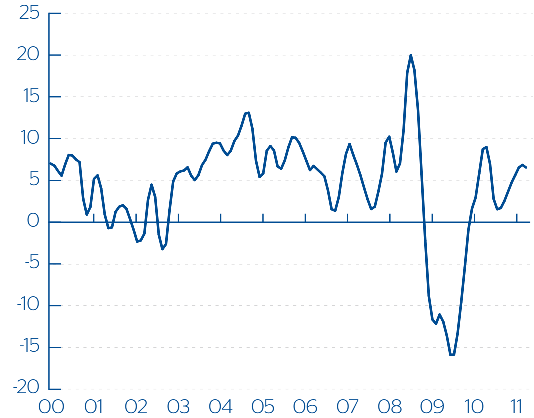
State exports continued to grow at double digit rates but have decelerated in 2011 due to a stronger dollar, lower commodity prices and intense competition from Asia. Nevertheless, in spite of cooling foreign demand, relatively higher growth in China and Latin America ensures stable demand for Texas' exports.

Chart 9
Texas Industry Employment, YoY % Change



Source: BLS / Haver Analytics

Chart 10
Texas Retail Sales, YoY % Change



Source: Census / Haver Analytics

Activity in the residential sector is improving, as housing starts and building permits are rising. Statewide, purchase price indexes are down around 2% on a YoY basis; however, strong sales are supporting prices in certain markets such as Houston. Declining foreclosures, low mortgage rates and sustained job growth are bolstering residential investment.

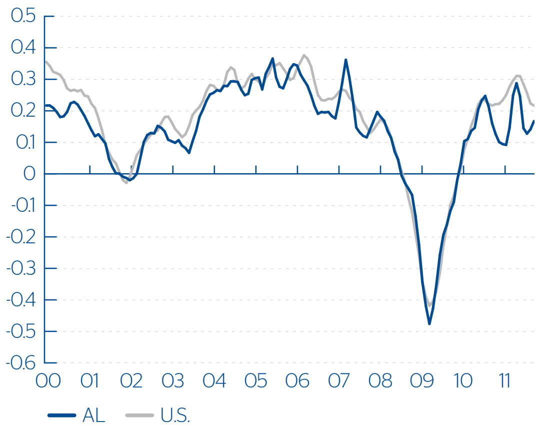
The outlook, however, is not all positive for 2012, as Texas continues to battle with the worst one-year drought in history. This drought has had tremendous costs for the agriculture and forestry industries. Moreover, a severe wildfire season destroyed thousands of homes and claimed four lives. Nearly all of Texas' counties have been declared disaster areas due to the drought, which will allow farmers, ranchers and residents to receive a combination of emergency loans and federal aid. The total economic cost associated with the drought will surpass several billion dollars and will curb the state's GDP growth into 2012 if the state does not see much-needed rain. Nevertheless, due to Texas' industrial diversity and its attractiveness for businesses and new residents, we expect Texas to expand near 3% in both 2011 and 2012.

Alabama

Economic activity has rebounded from substantial shocks in early 2011. We project the state's GDP 2011 growth to be below 2%, but slightly above the national average. Unfortunately, the state's labor market has been unable to gain widespread traction, as the largest employment generating sectors in 2011 have been retail trade and temporary help services with a combined 10,300 net increase. However, the state and local government sectors have shed 9,600 jobs to date in 2011. Construction and healthcare have contracted, while the professional services sector has added only a few hundred jobs.

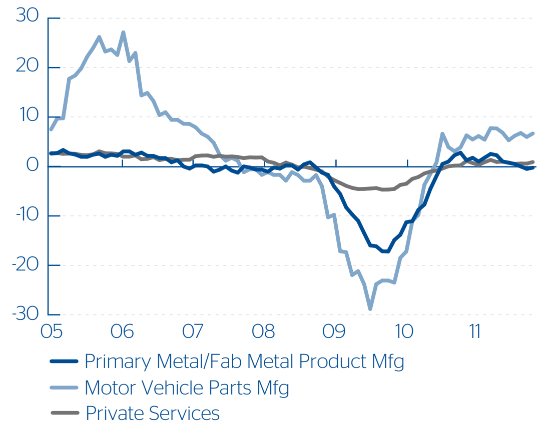
The bleak job creation is tempered by a dynamic manufacturing sector led by the automotive industry. The auto industry has overcome the disruptions caused by Japan's earthquake and global production is back to normal. Additionally, domestic auto sales have remained above 13 million units at a seasonally adjusted annual rate during the past two months. The luxury auto market segment exhibits little signs of a slowdown.

Chart 11
BBVA Compass SMAI, MoM % Change, 3mma



Source: BBVA Research

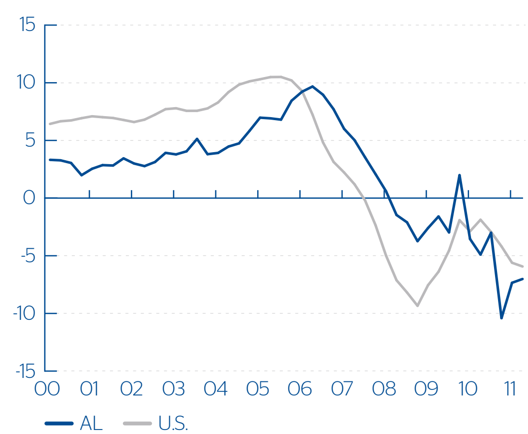
Chart 12
Alabama Industry Employment, YoY % Change



Source: BLS / Haver Analytics

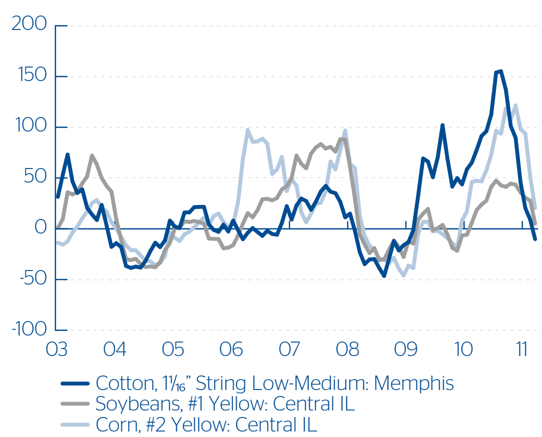
Construction and the residential real estate sector remain challenged by accelerating price declines, and weak sales. Thus, housing starts and building permits remain at exceptionally low levels. As a share of the labor force, the gap between the pre-recession construction employment level and today ranks Alabama in the bottom 25 states, below Mississippi, but well above Florida and Georgia. Thus, the recovery in this sector will remain slow.

Chart 13
Home Prices Purchase Only Index, YoY % Change



Source: FHFA / Haver Analytics

Chart 14
Cotton, Corn and Soybean Spot Prices, YoY % Change



Source: Wall St. Journal / Haver Analytics

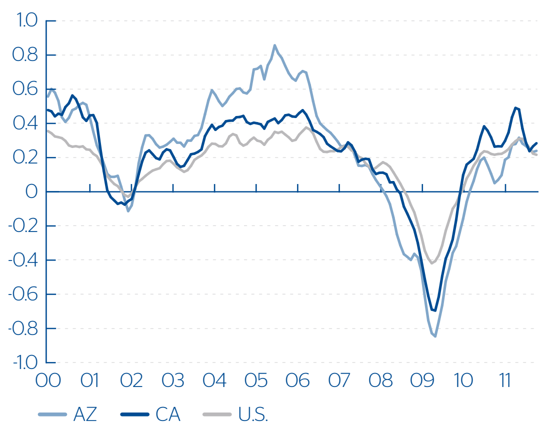
Further compounding the challenges in southern Alabama, 21 counties have been declared federal disaster areas due to severe drought. The lack of water will impact the area's agriculture production, and farmers will be eligible for federally subsidized loans and other benefits. In northern Alabama, however, in spite of the tornadoes and summer drought conditions, farmers are expecting average or slightly above average yields of corn, cotton and soybeans that will fetch high prices.

In addition to good harvests, we expect high value added industries such as military, aerospace and transportation manufacturing and vehicle parts to drive growth during the next year.

Arizona and California

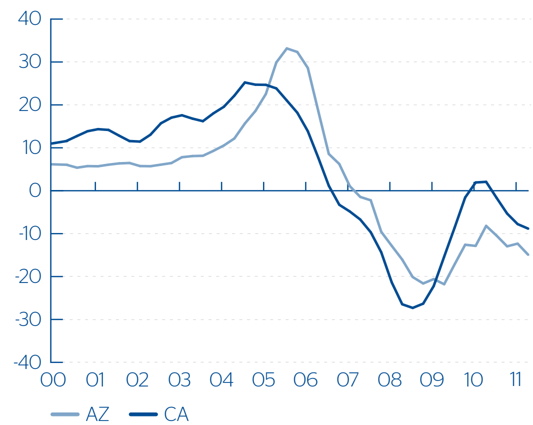
In Arizona, the labor market is improving rapidly. Net job growth will be positive for the first time in three years. Excluding professional services and local government, employment creation has been widespread across many sectors. Total nonfarm job creation has recently accelerated, as the residential construction industry is rebounding from lows. Although home prices are still falling, investors and builders are taking advantage of low financing rates and making bets on a strong recovery. Building permits and housing starts are still at low, but stable levels; however, they are both accelerating rapidly on a year-over-year basis. The pickup in construction activity is the right prescription for Arizona. As a percentage of the labor force, the difference between today's construction employment and its pre-recession level ranks Arizona the second-worst state with a 4.1% share behind Nevada's 7%. Certainly, a rebound in construction employment is a welcome sign of a turnaround in the state's activity level.

Chart 15
BBVA Compass SMAI, MoM % Change, 3mma



Source: BBVA Research

Chart 16
Home Prices Purchase Only Index, YoY % Change



Source: FHFA / Haver Analytics

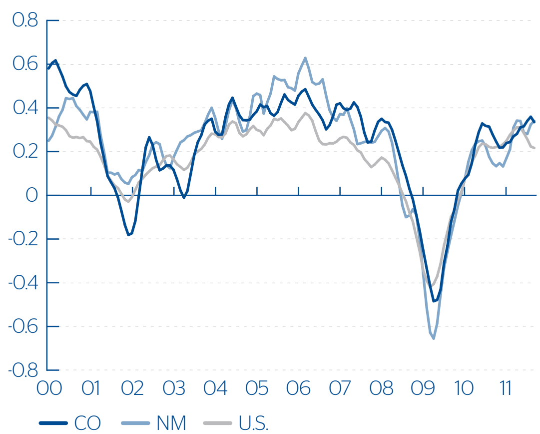
In California, job creation is picking up pace. Although the private sector had been creating jobs at a good clip, cuts in public sector employment had been weighing on total job creation. However, in recent months, government job cuts have ebbed, and recovery appears to be taking hold. Across industries, job growth is widespread among goods-producing and service-providing industries; however, the finance, insurance and real-estate sectors continue to contract. California's high-tech hub is attracting top talent, but activity in this sector is moderating as foreign demand cools and exports moderate. On the plus side, as in the case of Arizona, construction employment is rebounding on a year-over-year basis, as substantial residential home price declines have made investment attractive for builders and homeowners as population growth continues. The rebound in construction is essential for widespread growth throughout the state: in 2010, the Los Angeles MSA and the San Jose-Sunnyvale-Santa Clara MSA were responsible for 100% of California's total GDP growth that year. The recovery has been heterogeneous as economic activity in the coastal zones improved faster than inland areas, and the rebound in the service industries and construction will help bring prosperity to the inland areas in 2012.

Although the state faces undeniable challenges with regard to its fiscal management, if it were a country, it would rank as the world's 9th largest economy with a per-capita GDP that is 110% of the U.S. average. The proximity to Asia is also a leading factor, as these economies are projected to grow at near double-digit rates and demand U.S. exports. Indeed, the value of exports is up in excess of 12% on a year-over-year basis. Thus, we expect California to expand near 2% and faster than the U.S. average in 2011 and to strengthen in 2012.

Colorado and New Mexico

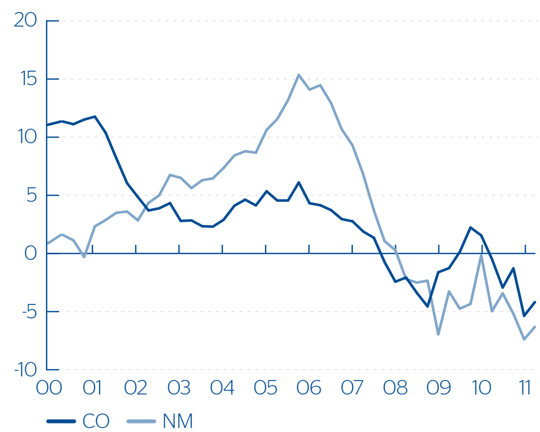
Job creation in Colorado continues to lag the national average; however, it is accelerating. The services industries have been the most responsible for job creation, as leisure and hospitality, education and health, and professional and scientific services are all attracting workers. The mining sector has been expanding rapidly; however, the total number of jobs in this sector is a small share of the total in Colorado. Unfortunately, the construction sector continues to lag, as employment is still down on a year-over-year basis. Nevertheless, although the unemployment rate remains below the national average, it has reached a plateau. Home prices are still declining in many areas, and building permits and housing starts are at very low levels. But, they are improving slowly, which suggests that construction employment should turn positive in early to mid-2012.

Chart 17
BBVA Compass SMAI, MoM % Change, 3mma



Source: BBVA Research

Chart 18
Home Prices Purchase Only Index, YoY % Change



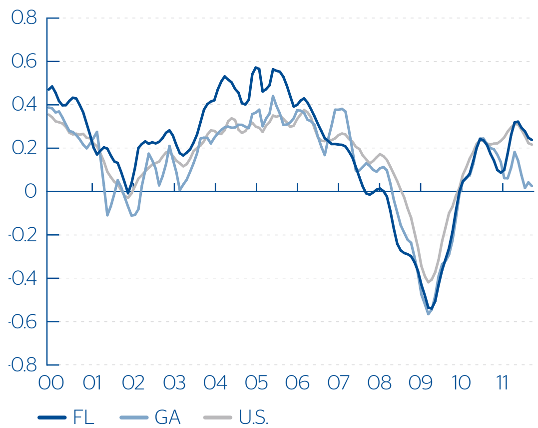
Source: FHFA / Haver Analytics

New Mexico remains in a challenging position, as widespread job creation has not yet taken hold. The mining, wholesale and retail trade, and education and health sectors are largely responsible for net employment gains this year. However, local governments continue to lay off workers, and the construction sector is still contracting. Regardless, year-over-year job creation turned slightly positive in the third quarter, and is helping the state to maintain its growth momentum ahead of the slowing pace in the U.S. Weak construction activity will continue to weigh on New Mexico into 2012, as this sector does not yet show clear signs of a turnaround. Colorado and New Mexico rank 7th and 8th, respectively, in terms of the share of potentially unemployed construction workers in the labor force.

Florida

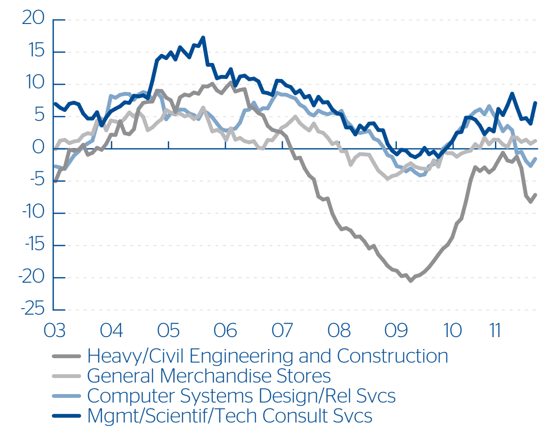
Overall job creation in Florida remains weak. However, some industries such as education, health and tourism continue to add jobs at a fast rate, while others such as wholesale trade, construction and manufacturing exhibit weak or declining employment. As a result, the unemployment rate remains high near 11%. Robust economic growth overseas will continue to support tourism and exports, which are still growing at double digit rates. However, the possibility of a softening growth in Latin America represents a downward risk. The housing market still exhibits fragility as building permits are recovering slowly and prices continue to slide on a year-over-year basis. The lack of residential construction activity hinders the state's recovery. Indeed, Florida ranks the 3rd worst state behind Nevada and Arizona in terms of the number of potentially unemployed construction workers as a share of the labor force.

Chart 19
BBVA Compass SMAI, 3mma % Change



Source: BBVA Research

Chart 20
Florida Industry Employment, YoY % Change



Source: BLS / Haver Analytics

Going forward, however, the state has a relatively sound fiscal situation, and we expect population growth to lead to above-average GDP expansion during the next five years. Also, recent job gains in the professional and technical services sector is adding to the stock of high-skill workers throughout the state.

5. Income, Poverty and Healthcare in BBVA Compass Sunbelt States

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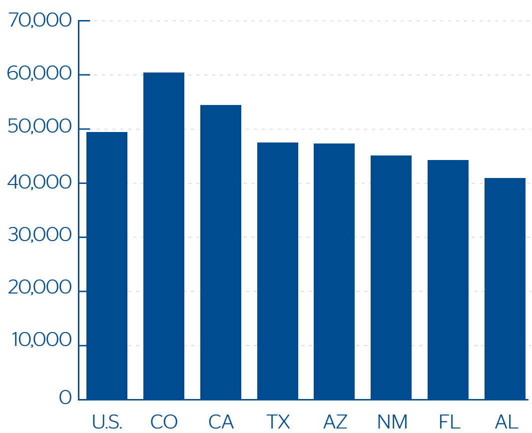
Recently, the U.S. Census Bureau released national data on income, poverty and health insurance coverage from the Annual Social and Economic Supplement of the Current Population Survey (CPS).[1] The document contains substantial information regarding the U.S., but only a small subset of the tables provides state-level data. State-level data on income, poverty and healthcare in the BBVA Compass Sunbelt States was pulled from the American Community Survey (ACS) 1-year estimates. The CPS and the ACS utilize different surveys so the figures may not be identical between them. Unless otherwise noted, the population figures used in the ACS is total population, but the CPS data refers to civilian non-institutional population. The original data from both sources included information on margins of error for both levels and percentages; for simplicity, they are omitted from this presentation. Readers interested in error margins should refer to the original ACS and CPS data.[2]

Income

Two of the Sunbelt states have 2010 median household income greater than the U.S. median of $49,445 – Colorado and California (chart 21). Colorado and California rank 6th and 15th among the 51 states (including Washington, D.C.). The rest of the Sunbelt states rank 29th to 47th, with Arkansas having the lowest median income.

Chart 21

Median Income, US and BBVA Sunbelt States, 2010, dollars



Source: Annual Social and Economic Supplement of the Current Population Survey, 2011

Table 1

Rank and Change in Real Median Income from Peak Levels, U.S. and BBVA Sunbelt States

2010 Dollars	Rank	2010	% Decrease From Peak	Peak Real Median Income	Peak Year
United States		49,445	(6.4)	52,823	2007
Colorado	6	60,442	(6.0)	64,293	2007
California	15	54,459	(9.0)	59,821	2006
Texas	29	47,464	(2.0)	48,427	2007
Arizona	30	47,279	(6.6)	50,611	2004
New Mexico	38	45,098	(3.3)	46,643	2007
Florida	39	44,243	(10.4)	49,394	2006
Alabama	47	40,976	(9.0)	45,039	2008

Source: Annual Social and Economic Supplement of the Current Population Survey, 2011.

U.S. median real income (in 2010 dollars) fell 6.4% from its peak in 2007. In the Sunbelt states, peak median incomes occurred anywhere from 2004 (Arizona) to 2008 (Alabama), although most occurred in 2007. Texas and New Mexico had the lowest declines in median income (2.0% and 3.3%, respectively) from their 2007 peaks. Florida had the largest decline (10.4%) followed by California and Alabama (both declined 9.0%).

[1] DeNavas-Walt, C., B.D. Proctor, J.C. Smith, U.S. Census Bureau, Current Population Reports, P60-239. Income, Poverty, and Health Insurance Coverage in the United States: 2010, U.S. Government Printing Office, Washington, DC 2011.
[2] 2011 Current Population Survey, Annual Social and Economic Supplement (CPS ASEC) (http://www.census.gov/hhes/www/income/income.html). U.S. Census Bureau, 2010 American Community Survey 1-yr Estimate (http://www.census.gov/acs/www/).

Several generalizations can be made from the information on sources of household income for 2006 and 2010. First, both the percentage of households receiving earnings and the mean of those earnings decreased between 2006 and 2010 in all areas. Second, because of the aging of the population, the percentage of households receiving Social Security payments increased in the U.S. as a whole and in all Sunbelt states. The proportion of households collecting Supplemental Security income (for aged, blind and disabled persons who have little or no income) also increased in all areas. Households receiving cash public assistance increased in all areas except Alabama, where the proportion remained constant. Finally, the proportion of households receiving Food Stamps/SNAP increased in all areas between 2006 and 2010. All of these changes in sources of income reflect the weak economy throughout the U.S. since 2006 and the aging of the baby boomers.

Table 2

Sources of Income, 2010 and 2006 in 2010, U.S. and BBVA Sunbelt States, 1-year Estimates

Subject	United States		Alabama		Arizona		California	
	2010 Estimate	2006 Estimate	2010 Estimate	2006 Estimate	2010 Estimate	2006 Estimate	2010 Estimate	2006 Estimate
Total households	114,567,419	111,617,402	1,815,152	1,796,058	2,334,050	2,224,992	12,406,475	12,151,227
Median household income	50,046	52,347	40,474	41,903	46,789	51,117	57,708	61,251
Mean household income	68,259	70,860	55,778	57,332	62,838	69,231	79,465	83,685
Sources of Income								
With earnings	78.30%	80.30%	73.80%	75.80%	76.20%	78.70%	80.70%	82.70%
Mean earnings	69,506	72,164	57,847	59,546	63,514	69,858	79,664	83,922
With Social Security	28.40%	26.80%	32.50%	31.30%	29.90%	28.20%	25.10%	23.30%
With Supplemental Security Income	5.10%	4.00%	6.90%	5.20%	4.20%	3.10%	6.10%	4.90%
With cash public assistance income	2.90%	2.40%	1.60%	1.60%	2.80%	1.90%	4.00%	3.20%
With Food Stamp/SNAP benefits in the past 12 months	11.90%	8.10%	14.30%	10.10%	13.20%	6.80%	7.40%	4.30%

Subject	Colorado		Florida		New Mexico		Texas	
	2010 Estimate	2006 Estimate	2010 Estimate	2006 Estimate	2010 Estimate	2006 Estimate	2010 Estimate	2006 Estimate
Total households	1,960,585	1,846,988	7,035,068	7,106,042	765,183	726,033	8,738,664	8,109,388
Median household income	54,046	56,257	44,409	49,008	42,090	43,765	48,615	48,399
Mean household income	72,423	74,977	61,877	67,735	57,655	58,691	66,756	67,502
Sources of Income								
With earnings	82.70%	84.50%	73.10%	75.60%	76.80%	79.80%	82.80%	83.80%
Mean earnings	71,641	73,948	61,596	68,575	56,535	57,273	67,091	67,840
With Social Security	22.10%	20.60%	34.60%	32.50%	29.90%	27.00%	24.00%	22.80%
With Supplemental Security Income	3.60%	2.40%	4.70%	3.50%	5.70%	4.40%	4.90%	3.70%
With cash public assistance income	2.20%	1.70%	2.00%	1.30%	2.80%	2.20%	1.90%	1.50%
With Food Stamp/SNAP benefits in the past 12 months	7.80%	5.00%	12.40%	7.40%	13.00%	8.70%	12.90%	9.80%

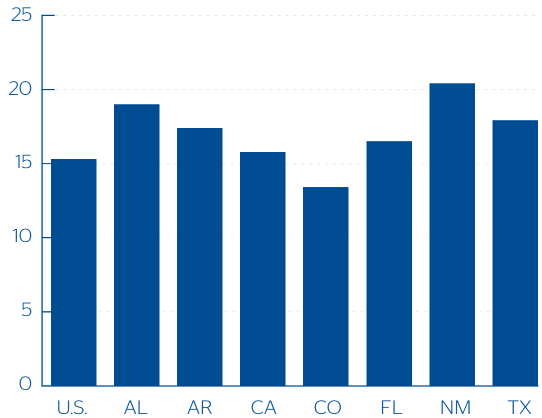
Source: U.S. Census Bureau, 2010 American Community Survey

Poverty

In the U.S., 15.3% of all population lives in poverty, or approximately 42.2 million people. All Sunbelt states except for Colorado have higher percentages of their population living in poverty than the U.S. New Mexico and Alabama have the highest overall poverty rates (20.4 % and 19.0 %, respectively).

Chart 22

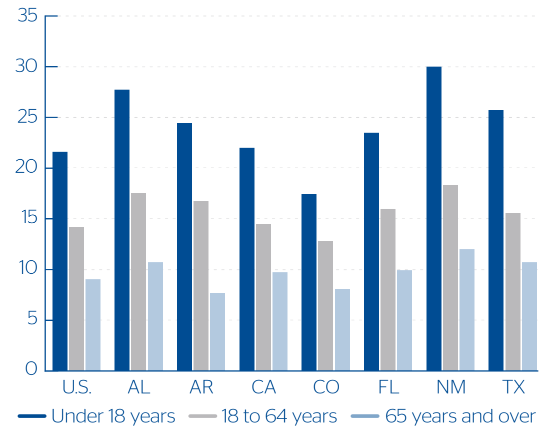
Percent of Population Living in Poverty for the US and Sunbelt States, 1-year Estimates



Source: U.S. Census Bureau, 2010 American Community Survey

Chart 23

Percent of Population (Civilian Noninstitutionalized) Living in Poverty, by Age Group, 1-year Estimates



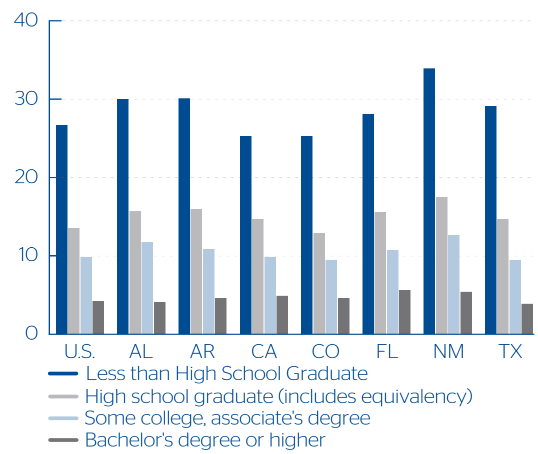
Source: U.S. Census Bureau, 2010 American Community Survey

The highest poverty rate occurs for children under the age of 18 with poverty rates ranging from 17.4% in Colorado to 30.0% in New Mexico. In all areas, the poverty rates of children exceed that of people aged 19 to 64 by approximately 4% to 12%, depending on the state. Seniors have the lowest rate of poverty among the three age groups, ranging from 7.7% in Arizona to 12.0% in New Mexico.

Poverty rates are inversely related to the level of education in all areas (chart 25). Not surprisingly, the highest poverty rates occur for persons with less than a high school degree. Poverty rates for this group range from 25.3% (California and Colorado) to 33.9% (New Mexico). Poverty rates decline for each successive educational level and are lowest for those with a bachelor's degree or higher. Poverty rates for the latter group range from 3.9% (Texas) to 5.6% (Florida).

Chart 24

Percentage of the Population over 25 Living in Poverty, by Educational Attainment, 1-year Estimates



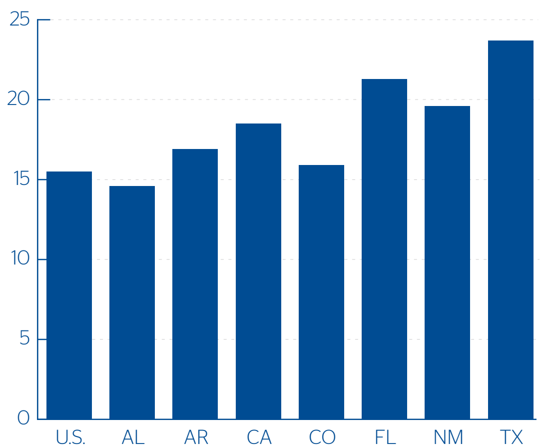
Source: U.S. Census Bureau, 2010 American Community Survey

Healthcare

All but one of the BBVA Compass Sunbelt states have uninsured rates that exceed the U.S. average of 15.5%. Alabama's uninsured rate of 14.6% falls below the U.S. average, while the remaining six states have uninsured rates between 15.9% in Colorado to 23.7% in Texas. The Sunbelt states have an estimated total of 19.6 million uninsured individuals out of a total civilian non-institutional population of 98.1 million. Although the Sunbelt states comprise only 32.2% of U.S. population, the uninsured in those states represent 41.5% of all 47.2 million of uninsured persons in the U.S.

Chart 25

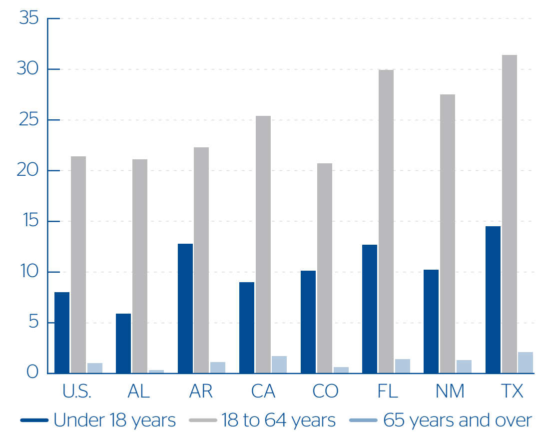
Percent Uninsured in the U.S. and Sunbelt States, 1-year Estimates



Source: U.S. Census Bureau, 2010 American Community Survey

Chart 26

Percent Uninsured by Age for the U.S. and Sunbelt States, 1-year Estimates



Source: U.S. Census Bureau, 2010 American Community Survey

Because of Medicare, seniors (65 and over), have the lowest uninsured rates. The uninsured rate for seniors in the U.S. is 1% and range from 0.3% in Alabama to 2.1% in Texas. Children under 18 years of age have uninsured rates between 5.9% and 14.5%. Alabama's 5.9% rate is the only one among the Sunbelt states that is lower than the U.S. rate of 8.0%. Adults aged 18 through 64 have extremely high rates of uninsured, ranging from 21.1% in Alabama to 31.4% in Texas.

A major reason underlying the observed variations in uninsured rates across the Sunbelt states is the citizenship status of the population. In the U.S. and the Sunbelt states, persons who are not citizens have very high uninsured rates when compared to both native born and naturalized citizens. The relatively low uninsured rate in Alabama and Colorado are due in large part to the relatively small portion of the population who are not citizens (2.6% in Alabama and 6.3% in Colorado, compared to 7.3% for the U.S. as a whole). Similarly, the comparatively high uninsured rates in California, Florida and Texas can be partly attributable to the relatively high portions of their population that are not citizens. New Mexico is unique in that the portion of the population that are not U.S. citizens (6.5%) is below the national average yet that state has the 3rd highest uninsured rate among the Sunbelt states.

Table 3

Citizenship Status and Uninsured by Citizenship, the U.S. and Sunbelt States

	% total population	% uninsured		% total population	% uninsured
United States			Colorado		
Native born	87.0%	12.7%	Native born	90.1%	13.3%
Naturalized	5.7%	16.4%	Naturalized	3.6%	16.6%
Not a citizen	7.3%	48.3%	Not a citizen	6.3%	52.2%
Total Population	100.0%	15.5%	Total Population	100.0%	15.9%
Alabama			Florida		
Native born	96.4%	13.2%	Native born	80.4%	16.9%
Naturalized	1.0%	20.5%	Naturalized	9.5%	21.8%
Not a citizen	2.6%	64.4%	Not a citizen	10.1%	55.9%
Total Population	100.0%	14.6%	Total Population	100.0%	21.3%
Arizona			New Mexico		
Native born	86.7%	13.6%	Native born	90.1%	16.4%
Naturalized	4.9%	17.3%	Naturalized	3.4%	23.1%
Not a citizen	8.4%	50.8%	Not a citizen	6.5%	61.8%
Total Population	100.0%	16.9%	Total Population	100.0%	19.6%
California			Texas		
Native born	72.6%	13.1%	Native born	83.5%	18.3%
Naturalized	12.5%	16.9%	Naturalized	5.3%	27.0%
Not a citizen	14.9%	46.4%	Not a citizen	11.2%	62.3%
Total Population	100.0%	20.6%	Total Population	100.0%	23.7%

Source: Annual Social and Economic Supplement of the Current Population Survey, 2011.

The table above presents the insured and uninsured rates, by type of insurance. The percentage of the population with private healthcare insurance is smaller in 2010 than 2000 for the U.S. and all Sunbelt states. Within the private insurance category, the employment-based insurance also decreased in all areas. The proportion of the population with direct purchased private insurance is also smaller in 2010 than 2000 for the U.S. as a whole and for Florida, New Mexico and Texas, although it is higher in 2010 than 2000 in Alabama, Arizona, California and Colorado.

The proportion of the population receiving government-based health insurance is higher in 2010 than 2000 for all Sunbelt states. All three sources of government health insurance have increased since 2000 – Medicare, due to the aging of the population, Medicaid, due to the weak economy, and Military insurance due to military action abroad.

Conclusion

The BBVA Compass Sunbelt states as a group have lower incomes, higher poverty levels and lower rates of healthcare coverage than the rest of the U.S. To some extent this reflects historical patterns, but four of the seven states experienced larger declines in median incomes from 2006 to 2010 than the U.S., indicating that the recession and extremely slow recovery have stressed the population in those states more than the rest of the country. Both the downward trend in the portion of households that have earnings as a source of income and the upward trend in the proportions of households receiving government assistance --- Supplemental Security Income, cash public assistance income and food stamps --- are reflective of the severity and duration of the recession. Overall health insurance coverage rates have declined throughout the U.S. and the increase in government-provided health insurance for the military, seniors and those in poverty has not offset the strong decline in private health insurance coverage associated with the extremely weak economy.

Economic Forecasts (YoY % Change)

U.S.

	2010	1Q11	2Q11	3Q11	4Q11	2011	2012
Real GDP	3.0	2.2	1.6	1.6	**1.1**	**1.6**	**2.3**
Nonfarm Employment	-0.7	0.9	0.8	1.1	**1.1**	**1.0**	**1.1**
Nom. Personal Income	3.7	5.8	5.4	**5.6**	**4.6**	**5.4**	**4.3**
Home Price Index	-3.0	-5.6	-5.9	**-4.3**	**-2.8**	**-4.7**	**-0.5**
Home Sales	-5.3	-1.9	-12.1	**15.4**	**2.0**	**-0.1**	**0.1**

Alabama

	2010	1Q11	2Q11	3Q11	4Q11	2011	2012
Real GDP	2.0	**2.2**	**1.2**	**0.8**	**1.0**	**1.3**	**1.7**
Nonfarm Employment	-0.9	0.3	-0.3	-0.1	**0.2**	**0.0**	**0.4**
Real Personal Income	1.4	3.0	1.8	**1.5**	**1.3**	**1.9**	**1.8**
Home Price Index	-5.5	-7.3	-7.0	**-7.4**	**-4.3**	**-6.5**	**-2.1**
Existing Home Sales	-6.0	-7.2	-21.6	**16.3**	**16.5**	**-0.8**	**6.9**

Arizona

	2010	1Q11	2Q11	3Q11	4Q11	2011	2012
Real GDP	0.8	**2.0**	**1.3**	**1.5**	**1.6**	**1.6**	**2.2**
Nonfarm Employment	-2.1	0.0	-0.2	1.0	**1.2**	**0.5**	**1.9**
Real Personal Income	1.1	3.8	2.9	**2.7**	**2.0**	**2.9**	**1.4**
Home Price Index	-11.1	-12.3	-14.9	**-12.6**	**-10.5**	**-12.6**	**-5.1**
Existing Home Sales	-1.4	13.3	9.2	**23.5**	**13.4**	**14.6**	**6.6**

California

	2010	1Q11	2Q11	3Q11	4Q11	2011	2012
Real GDP	1.8	**2.9**	**1.7**	**1.4**	**1.5**	**1.9**	**2.5**
Nonfarm Employment	-1.3	1.1	0.8	1.4	**1.1**	**1.1**	**0.9**
Real Personal Income	2.2	4.9	3.8	**3.5**	**3.0**	**3.8**	**0.5**
Home Price Index	-0.8	-7.8	-8.8	**-7.1**	**-6.2**	**-7.5**	**-4.9**
Existing Home Sales	-8.0	-1.5	-8.3	**12.9**	**13.6**	**3.8**	**4.7**

Colorado

	2010	1Q11	2Q11	3Q11	4Q11	2011	2012
Real GDP	1.4	**2.3**	**1.7**	**1.4**	**1.4**	**1.7**	**1.9**
Nonfarm Employment	-1.1	0.7	0.4	0.6	**0.8**	**0.6**	**1.0**
Real Personal Income	2.0	4.3	3.5	**3.2**	**3.0**	**3.5**	**1.2**
Home Price Index	-0.8	-5.4	-4.2	**-4.2**	**-5.2**	**-4.7**	**-1.7**
Existing Home Sales	-5.9	-8.1	-11.2	**38.0**	**22.1**	**7.5**	**5.4**

Florida

	2010	1Q11	2Q11	3Q11	4Q11	2011	2012
Real GDP	1.4	**2.1**	**1.4**	**1.2**	**1.7**	**1.6**	**2.4**
Nonfarm Employment	-1.0	0.7	0.2	0.6	**1.0**	**0.6**	**1.3**
Real Personal Income	1.5	3.5	2.4	**2.2**	**2.4**	**2.6**	**0.8**
Home Price Index	-6.5	-10.0	-8.1	**-7.9**	**-7.3**	**-8.3**	**-2.6**
Existing Home Sales	11.0	17.0	1.9	**32.1**	**28.7**	**19.3**	**13.7**

New Mexico

	2010	1Q11	2Q11	3Q11	4Q11	2011	2012
Real GDP	1.7	**1.0**	**1.0**	**1.2**	**1.6**	**1.2**	**2.4**
Nonfarm Employment	-1.3	-0.2	-0.5	0.3	**0.5**	**0.0**	**0.5**
Real Personal Income	2.7	3.4	2.3	**1.7**	**1.5**	**2.2**	**1.8**
Home Price Index	-3.4	-7.4	-6.3	**-5.1**	**-2.2**	**-5.3**	**-0.1**
Existing Home Sales	-4.4	-3.5	-14.3	**33.9**	**22.9**	**6.7**	**7.5**

Texas

	2010	1Q11	2Q11	3Q11	4Q11	2011	2012
Real GDP	2.8	**3.4**	**2.8**	**2.5**	**2.5**	**2.8**	**3.0**
Nonfarm Employment	0.3	2.6	2.1	2.4	**2.4**	**2.4**	**2.0**
Real Personal Income	3.5	5.9	4.7	**4.5**	**4.2**	**4.8**	**1.3**
Home Price Index	0.1	-2.2	-1.9	**-1.9**	**-1.0**	**-1.7**	**0.4**
Existing Home Sales	-6.2	-5.2	-9.7	**16.7**	**5.6**	**0.7**	**0.2**

Note: Forecasts in bold
Source: BBVA Research, BEA, BLS, NAR, Census Bureau and FHFA

Economic Structure

	U.S.	AL	AZ	CA	CO	FL	NM	TX
GDP (2010 $ Billions)	14,527	173	254	1,901	258	748	80	1,207
Population (2010 Thousands)	309,350	4,785	6,414	37,349	5,049	18,843	2,066	25,257
Labor Force (Sep '11 Thousands)	154,017	2,161	3,152	18,068	2,681	9,216	931	12,300
Nonfarm Payroll (Sep '11 Thousands)	131,192	1,870	2,418	14,099	2,241	7,254	801	10,610
Unemployment Rate (Sep '11)	9.1	9.8	9.1	11.9	8.3	10.6	6.6	8.5
Total Building Permits, (YTD Jan-Sep 2011)	332,413	6,135	8,180	17,657	7,625	25,772	2,861	51,029
Change in Building Permits (YTD Jan-Sep YoY (%))	-9.2	-7.8	-9.2	-12.9	2.2	1.1	-12.7	-5.4
Home Ownership Rate (3Q11)	66.3	70.7	65.7	55.9	67.6	69.5	66.3	64.1
Housing Prices (2Q11 YoY Change (%))	-5.9	-7.0	-14.9	-8.8	-4.2	-8.1	-6.3	-1.9
Exports of Goods (3Q11 $ Billions)	374.3	4.5	4.2	40.5	1.9	16.9	0.6	63.3
Change in Exports (3Q11 YoY Change (%))	17.5	14.3	11.4	12.4	7.4	22.6	40.6	22.0

Source: BEA, BLS, Census, WiserTrade and FHFA

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