

Economic Watch

United States

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Economic Analysis

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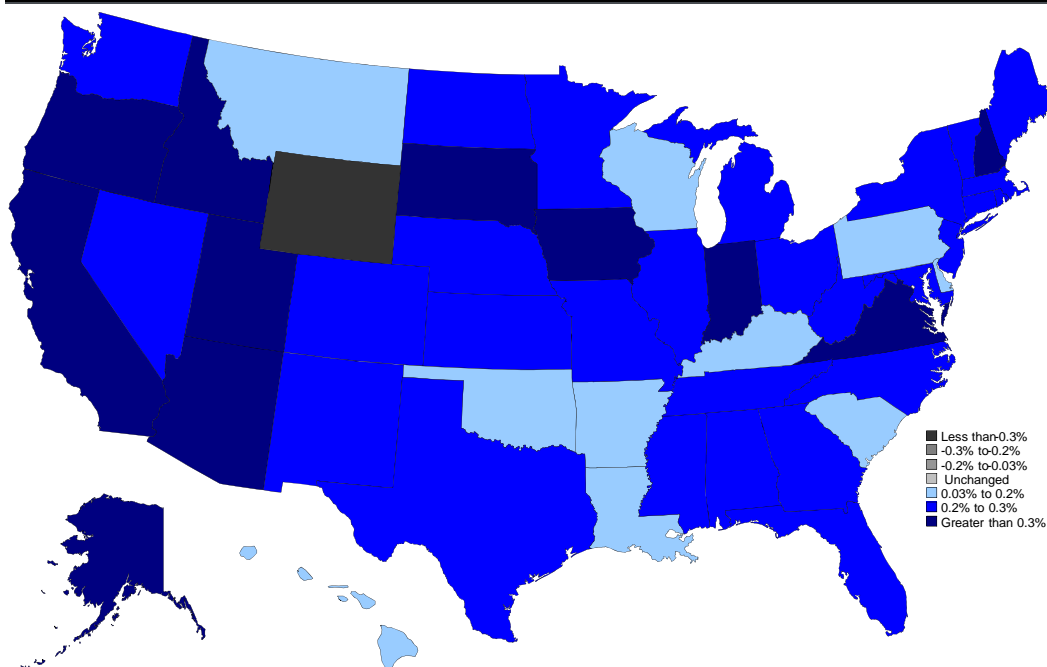
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State Activity Indexes May 2013

- In May, state activity¹ increased in 39 states, decreased in 1 state and remained unchanged in 10 states.
- The growth trend² in April picked up in 25 states, slowed in 20 states and was unchanged in 5 states.
- Despite a widespread decline in 1Q13 state personal income estimates, employment gains in the tourism, retail and wholesale trade industries offset that negative impact on activity.
- Sunbelt activity has softened due to a slower pace of hiring. To the upside, however, California and Florida continued to ride a wave of housing activity and rank in the top 10 among states in terms of economic activity.

Chart 1

Activity Indexes, May 2013, 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.

¹MoM% Change
²ΔMoM% Change

Table 1
Across the U.S., Selected Indexes



May 2013		Avg. Annualized Growth Rate (%)			Percent Change in Index (MoM)			Growth Rank*
State	Index	3 Mo.	6 Mo.	12 Mo.	Current	3MMA	6MMA	MoM
Alabama	138	2.5	2.1	2.1	0.3	0.2	0.2	22
Arizona	171	2.9	3.0	3.6	0.4	0.2	0.2	9
California	164	4.3	4.1	4.6	0.4	0.3	0.3	8
Colorado	174	3.5	4.4	4.6	0.2	0.3	0.4	26
Florida	155	3.8	3.6	3.8	0.3	0.3	0.3	17
New Mexico	153	2.5	2.7	2.5	0.2	0.2	0.2	33
North Dakota	220	2.8	3.9	7.2	0.2	0.2	0.3	28
Oregon	226	7.3	7.4	6.4	0.6	0.6	0.6	1
Texas	186	3.9	4.5	4.8	0.3	0.3	0.4	12
Utah	187	5.3	5.3	5.2	0.3	0.4	0.4	11
US	149	1.2	2.5	2.8	-0.3	0.1	0.2	
Sunbelt	168	3.7	3.9	4.2	0.3	0.3	0.3	
Excluding	144	2.4	2.8	2.6	0.2	0.2	0.2	

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. **Bold denotes BBVA Compass sunbelt state.**

Source: BBVA Research.

*Growth Rank= 12-month average annualized growth. MMA = months moving average.

Chart 2
Diffusion Index

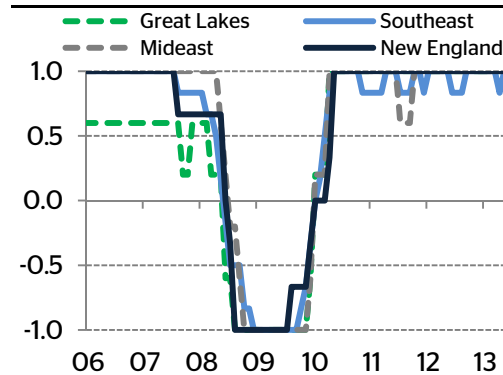
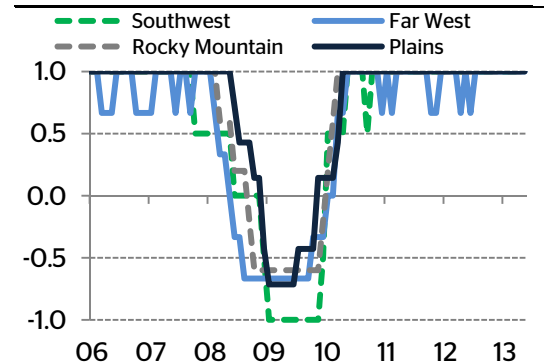


Chart 3
Diffusion Index



Source: BBVA Research, BLS / Haver Analytics.

Diffusion Index: Reports the number of states that grew in the past month as a fraction of the total number of states in that region. For example, a value of one indicates that all states within the region grew, zero suggests half the states expanded, and -1 suggests all the states in that region contracted.

Bottom Line

The soft patch in 1H13 is shaping up to be on par with our expectations. Nevertheless, activity is showing signs of strengthening as we head into the second half of the year. Only Wyoming experienced negative growth in May, which was due in large part to significant weakening in the mining and manufacturing sectors. Upside surprises to home sales continue to drive prices up in many states. 1Q13 Home price indexes in Arizona and California, for example, are up 19.8% YoY and 16.6% YoY, respectively. Manufacturing employment also trended positively in spite of a weak global export environment.

As the economy shifts away from the uncertainty of higher taxes and decreased federal spending, activity should improve. The recent run-up in interest rates is a risk to housing-related and construction employment; however, rates remain exceptionally low and housing demand is steadily improving. Employment gains in the wholesale and retail trade, and leisure and hospitality industries reflects improving consumer sentiment. As construction continues to contribute positively to economic activity, and automobile sales continue to increase, we expect 2H13 state-level activity to gain momentum. The downward revision to 1Q13 U.S. GDP supports our baseline forecast of 1.8% YoY real GDP growth for 2013.

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