

U.S.

Regional Watch

September 27, 2010

Economic Analysis

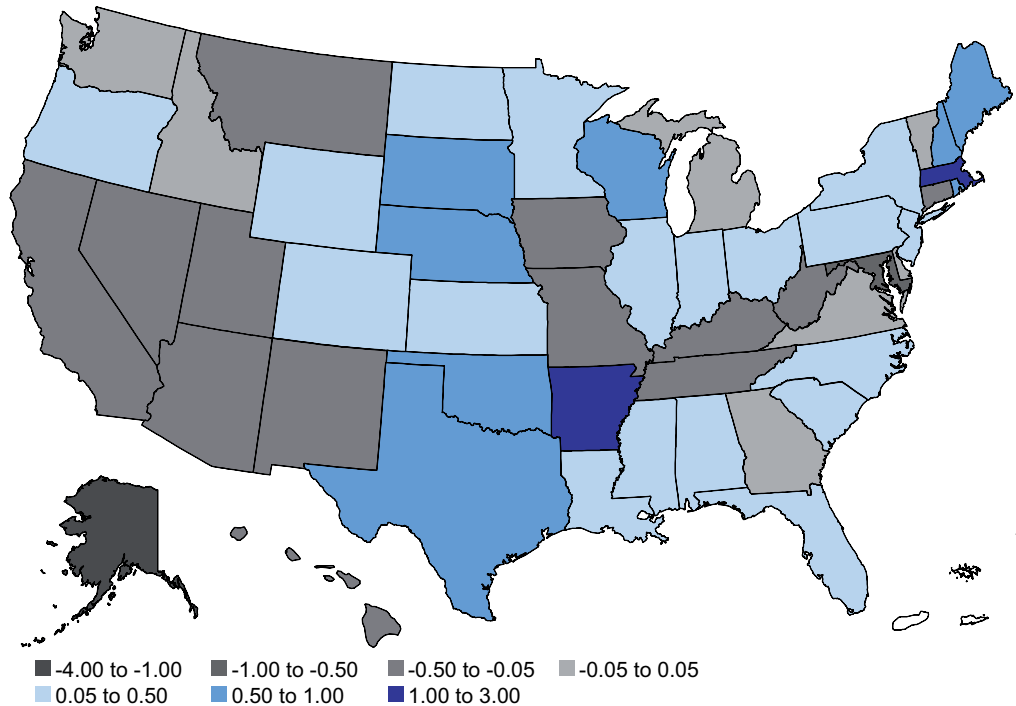
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State Monthly Activity Index

- The indexes detect widespread slowdown across the country.
- According to the 3-month moving average, 28 states are expanding, 7 states are stable with no growth, and the remaining 15 states are contracting. This compares to a revised estimate of 37 expanding and 8 contracting states in August.
- Compared to the previous month, the pace of economic activity improved in 8 states, remained unchanged in 6, and slowed in 36 states.
- Activity in the BBVA Compass Sunbelt Region dropped below the U.S. average; updates to August estimates indicate weaker activity in the Sunbelt than previously noted.
- In the BBVA Compass Sunbelt, Texas leads the expansion, while Alabama expands at the U.S. pace. Activity weakened in all 7 states.
- Expansionary activity dampened significantly in both Florida and Colorado, but the 3-month moving average remains positive.
- Activity continued to slow in Arizona and California, as the 3-month moving averages remain negative.

Chart 1

BBVA Compass SMAI, September 2010, 3-Month Moving Average



The state monthly activity indexes incorporate the latest sector-level employment data, exports, building permits, home prices and housing sales data for each state (data through July). The above map presents the regional snapshot of economic activity. Positive values indicate expansion, negative values indicate contraction. An index value of 0 indicates no growth. Source: BBVA Research

Table 1

Summary of State Monthly Activity Indexes, September 2010

State	Index	Moving Average (MA)			Point Change in 3-Month MA		
		3 Mo.	6 Mo.	12 Mo.	Δ1 Mo.	Δ3 Mo.	Δ12 Mo.
Alabama	-1.5	0.2	0.3	-0.2	-0.6	1.0	1.8
Arizona	-1.1	-0.4	0.0	-0.1	-0.2	-0.3	1.1
California	-0.6	-0.2	-0.1	-0.3	-0.1	0.0	1.6
Colorado	-0.7	0.1	-0.2	-0.5	0.1	1.1	1.5
Florida	-1.0	0.1	0.1	-0.2	-0.2	0.3	1.9
New Mexico	-1.7	-0.2	-0.2	-0.4	-0.6	0.5	1.4
Texas	-0.2	0.5	0.7	0.2	-0.4	1.0	2.0
Sunbelt	-0.8	0.1	0.2	-0.1	-0.2	0.4	1.8
United States	0.1	0.2	0.3	0.0	-0.1	0.2	1.8

The value of the index corresponds to economic growth. A positive index value indicates economic expansion, a value of 0 indicates no growth, and a negative value indicates contraction. The 3-month moving average comprises the current and prior 2 months' values of the index. This statistic helps to reduce volatility and identify a stable path; hence, it is a primary gauge of economic activity. For more information please review our [3Q08 U.S. Regional Watch](#). Source: BBVA Research

Across the BBVA Compass Sunbelt

In line with our prior assessments, this month's activity indexes exhibit a significant slowdown throughout the nation. In the BBVA Compass Sunbelt Region, activity contracted in all 7 states. The pullback of activity was most dramatic in Alabama, Arizona, New Mexico and Florida, milder in California and Colorado, and very light in Texas. Nevertheless, the 3-month moving averages indicate expansion in 4 of 7 states, and the strongest Sunbelt Region growth is occurring in Texas followed by Alabama.

The weak activity stems from anemic private sector employment growth. Construction employment languishes, and growth in service employment softened. For January-July 2010, an average of 56% of states reported increases in professional and business services employment each month; however, this metric dropped to 48% in August's report. Similarly, only 36% of states reported increases in other services employment compared with an average of 50% during the first 7 months.

Furthermore, national data indicate a slowing pace of export growth; slower exports will dampen activity across the Sunbelt. As we noted last month, softer foreign demand for U.S. exports presents a risk to the states with the weakest fundamentals such as high unemployment rates, excess housing inventory and strained fiscal budgets.

Alabama's index slipped due to declines in employment across many service sectors, and weakening building permits. Although the unemployment rate dropped to 9.2% from 9.7%, both private and public employment registered net decreases. Going forward, we expect a stable pace of auto sales and international demand for high-tech equipment to aid the state economy.

While Arizona registered positive growth in the first quarter, its pace slowed and has now turned negative. Housing prices continue to fall along with employment in private services. Construction activity remains weak; however, the metal ore mining industry continues to generate jobs. The economies in Arizona and California tend to move together, and the disappointing growth in California hinders Arizona's recovery.

California's employment situation languishes; the unemployment rate ticked up slightly, and employment fell in 9 of 10 major industry sectors. On a positive note, the state's housing market is recovering. State-level housing price indexes are stable over the first half of this year, and prices are rising in major metropolitan areas. The stabilization of the real estate sector will bring buyers back into the market, reduce excess inventory, and stimulate new construction.

Florida's risks tilted to the downside. Softening exports and tepid service sector job creation curtail expansion. August's decline in manufacturing employment demonstrates the downside risk, as this sector had steadily created jobs this year. Further declines in Florida's housing price indexes hamper recovery in the residential real estate market, as lower transactions inhibit the need for new construction.

Expansion in Colorado and New Mexico stalled, as modest employment losses across major sectors occurred in Colorado, and significant losses continued in New Mexico's construction, education and health, leisure and hospitality and financial services industries.

In Texas, the pace of net private sector job creation decreased, but remained slightly positive. Texas was the only state in the Sunbelt region (and 1 of 18 states nationwide) to realize a net increase in private employment. Reductions of temporary census workers and the local government workforce, however, produced a net decline overall.

Bottom Line

The state monthly activity indexes confirm our expectation of slowing economic activity in the second half of the year. Similar to last month, activity decreased in over 70% of U.S. states. In August, net private sector job creation occurred in only 18 states, and Texas was the only state in the Sunbelt Region to exhibit a small increase. Since the end of the recession in June 2009, rapid export growth due to robust foreign demand supported GDP growth. Equally rapid private sector hiring did not accompany the fervent appetite for exports, however, and thus the labor market remains exceptionally weak. Service sector Job creation continues to struggle in spite of the sector's precipitous job losses early in the recession. States with high unemployment, large fiscal deficits and languishing housing markets remain at elevated risk of further contraction. High state government deficits are already affecting local economies as states begin to reduce the local government workforce and issue "IOUs" in lieu of paying their bills. While the risk of a double-dip recession remains low, risks to growth are tilted to the downside, and thus we foresee low U.S. GDP growth over the next year.

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