

Economic Watch

United States

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Economic Analysis

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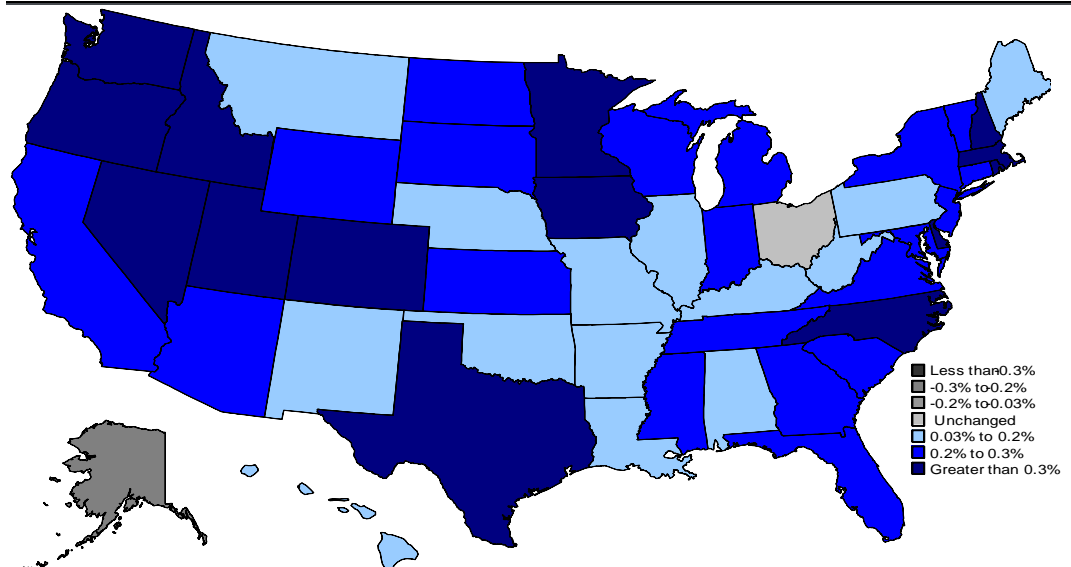
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State Activity Indexes January 2013

- In January, state activity¹ increased in 34 states, decreased in one state—Alaska—and remained constant in remaining 15 states.
- The growth trend², in January, picked up for a larger group of states, as 15 states accelerated. In addition, growth rates in 6 states were unchanged whereas 29 states decelerated.
- Although some states experienced stronger activity, energy dependent areas outside of Texas suffered. Volatile oil prices and softening demand held back income growth, oil and gas extraction employment and professional and business services. Moreover, a contraction in government jobs dampened activity.
- For most of the Sunbelt, activity was above average. However, certain trends pivoted to the downside or slowed at the start of 2013. For example, the torrid housing price appreciation in states such as Arizona and California eased and drilling and support activity slowed. Regardless, improvements in Florida's housing market and strong industry diversification across the region suggest that pockets of weak sector activity won't overshadow the regions potential growth.

Chart 1

Activity Indexes, January 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

² MoM% Change

Table 1
Across the U.S., Selected Indexes

January 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	133.2	1.8	2.1	2.2	0.1	0.1	0.2	43
Arizona	174.1	4.6	4.4	4.1	0.3	0.4	0.4	10
California	165.5	4.4	4.9	5.0	0.3	0.4	0.4	7
Colorado	173.8	5.6	5.2	5.0	0.5	0.5	0.4	8
Florida	155.3	3.9	4.1	4.1	0.3	0.3	0.3	11
New Mexico	155.2	3.0	2.6	3.0	0.2	0.2	0.2	24
North Dakota	199.5	6.1	7.4	9.8	0.3	0.5	0.6	1
Oregon	232.6	6.2	6.2	6.2	0.6	0.5	0.5	2
Texas	180.3	4.7	5.0	5.2	0.4	0.4	0.4	6
Utah	185.9	5.1	5.3	5.4	0.3	0.4	0.4	5
US	148.4	3.9	3.4	3.4	0.3	0.3	0.3	
Sunbelt	167.6	4.3	4.5	4.6	0.3	0.4	0.4	
Excluding	142.2	3.1	2.8	2.8	0.3	0.3	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

Chart 2
Diffusion Index

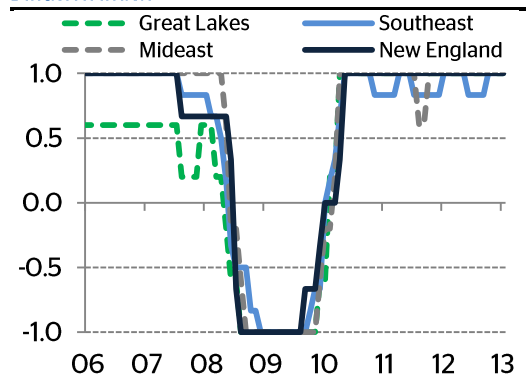
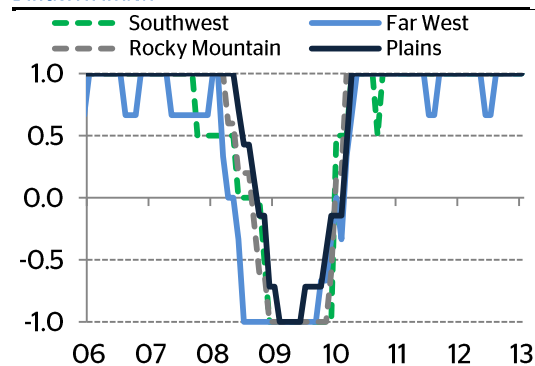


Chart 3
Diffusion Index



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

In general, growth in January was subdued relative to the 4Q12. Working against activity in most states was lower government spending, a lull in mining activity and the consumer adjustment to new tax expectations. For example, New Mexico's growth slowed considerably since December due to lower employment growth in tourism support industries as well as cutbacks in government spending. Similarly, Florida, Texas and California saw a pullback in service sector employment and mining which contributed to a slower growth environment. Regardless, positive signs remain such as above average housing activity in Florida and strong export and wholesale employment in Texas.

In total, the risk balance appears to be tilted to the upside. Moreover, headwinds in January should be largely transitory. To the upside, greater policy clarity and improved labor expectations should continue to boost consumer and demand expectations. In addition, continued housing price appreciation suggests a more resilient consumer. The major beneficiary of the aforementioned factors, construction, should provide additional impetus for activity in 2013. While weak external demand and federal cutbacks remain risks to activity, positive domestic trends appear strong enough to support higher levels of state activity in 1H13.

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