

Economic Watch

United States

April 29, 2013

Economic Analysis

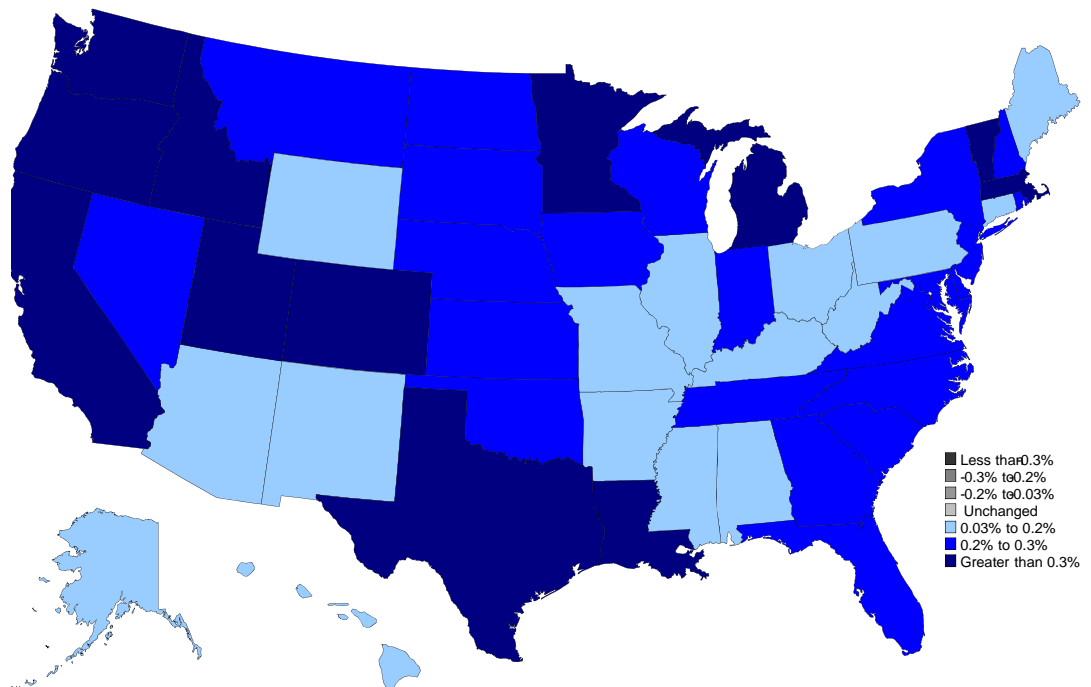
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State Activity Indexes February 2013

- In February, state activity¹ increased in 35 states, while remaining unchanged in 15 states.
- The growth trend² in February picked up in 18 states, slowed in 23 states and was unchanged since January in 9 states.
- Underlying growth was positive in spite of federal spending reductions. Of note, states more reliant on sectors such as manufacturing, construction and services saw activity tilt to the upside.
- In the Sunbelt, Arizona, New Mexico and Alabama underperformed relative to the majority of the U.S., but the other four states saw an improvement in activity. As such, we maintain our baseline scenario of stronger growth in the Sunbelt region.

Chart 1
Activity Indexes, February 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



February 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	1.5	2.2	2.1	0.1	0.1	0.2	45
Arizona	174	3.2	4.2	4.0	0.2	0.3	0.3	11
California	168	5.0	5.2	4.3	0.4	0.4	0.4	9
Colorado	174	5.4	5.4	5.0	0.4	0.4	0.4	7
Florida	156	3.5	3.9	4.0	0.2	0.3	0.3	12
New Mexico	156	2.6	2.9	2.9	0.2	0.2	0.2	28
North Dakota	200	4.6	6.4	8.8	0.3	0.4	0.5	1
Oregon	234	7.7	6.9	6.5	0.8	0.6	0.6	2
Texas	181	5.0	5.2	5.2	0.5	0.4	0.4	6
Utah	186	5.3	5.5	5.4	0.5	0.4	0.5	5
US	149	3.8	3.6	3.4	0.3	0.3	0.3	
Sunbelt	168	4.0	4.5	4.6	0.3	0.3	0.4	
Excluding	142	3.2	3.0	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

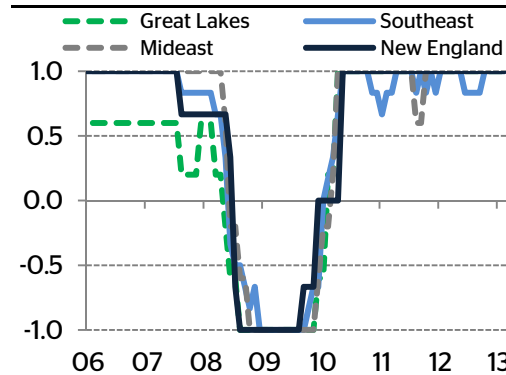
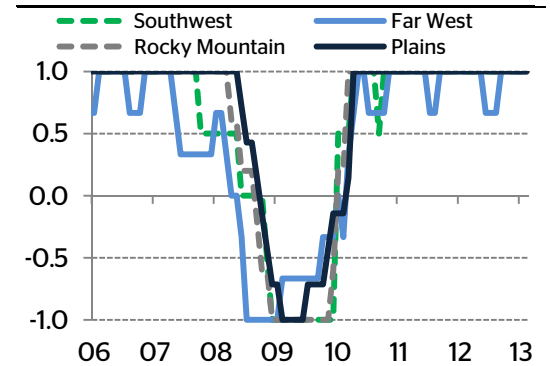


Chart 3
Diffusion Index



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

Our state activity index indicates that a handful of states gained momentum in February. An emerging trend in housing-related and construction employment is driving their growth. Strong expansion in the oil & gas and high tech industries in 2011 and 2012 generated positive spillovers to household incomes and net worth. An improved economic outlook and sustained job creation in these states is now boosting residential housing markets. Texas, for example, experienced a slight 0.2pp increase in its unemployment rate since 2012, yet strong house price growth in 2H12 and high demand hold Texas among the Top 10 in terms of state activity.

Other states such as Michigan and Ohio, which were more acutely affected by the recession and thus have weaker residential housing markets, could decelerate in March. Moreover, states such as Arizona, Alabama and Virginia are likely to see growth moderate in 2Q13 as federal spending cuts continue. Nevertheless, assuming macroeconomic risks remain balanced, we expect that state activity will tick upward in 2H13 in line with our baseline scenario.

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