

# Economic Watch

## United States

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### Economic Analysis

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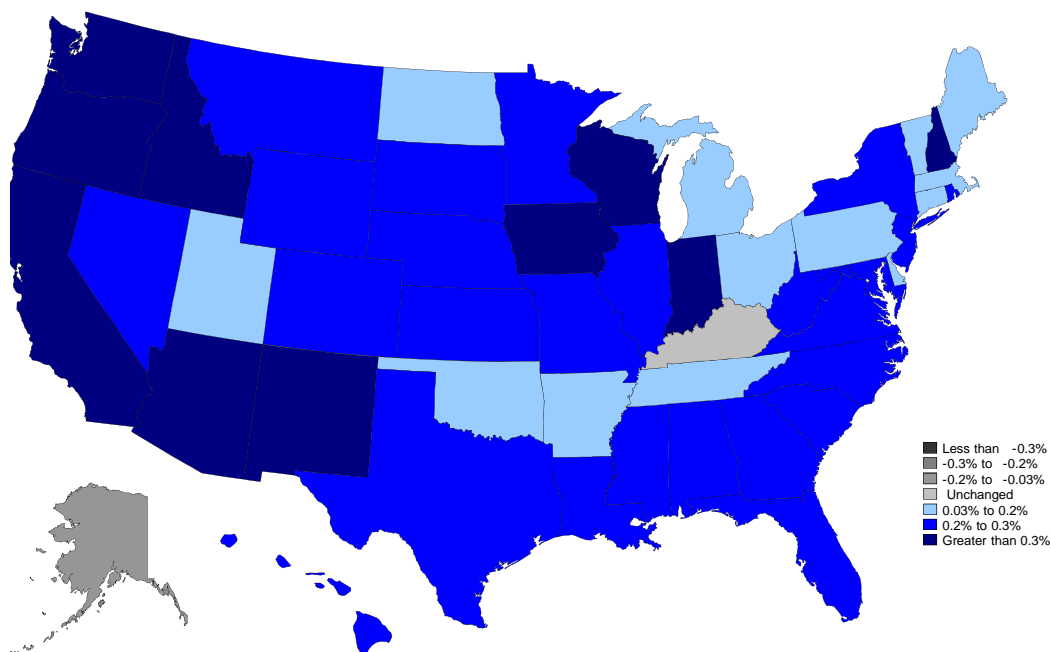
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## State Activity Indexes June 2013

- In June, state activity<sup>1</sup> increased in 35 states, and remained unchanged in 15 states.
- The pace of activity improved in 22 states, slowed in 20 states and was unchanged in 8 states.
- Housing price appreciation and growing retail, financial, and trade, transportation and utilities employment contributed strongly to state activity.
- In the Sunbelt, improving budget outlooks led to resurgent state and local government hiring. In states such as California, Arizona and New Mexico residential real estate activity has improved, as high affordability has increased the demand for mortgages.

Chart 1

### Activity Indexes, June 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.

<sup>1</sup>MoM% Change

<sup>2</sup>ΔMoM% Change

Table 1  
Across the U.S., Selected Indexes



State	June 2013 Index	Avg. Annualized Growth Rate (%)			Percent Change in Index (MoM)			Growth Rank*
		3 Mo.	6 Mo.	12 Mo.	Current	3MMA	6MMA	
Alabama	138	3.1	2.2	2.2	0.3	0.3	0.2	15
Arizona	172	3.5	2.8	3.6	0.4	0.3	0.2	5
California	164	4.6	4.0	4.6	0.4	0.4	0.3	8
Colorado	175	3.8	4.1	4.5	0.3	0.3	0.3	12
Florida	155	3.5	3.3	3.6	0.3	0.3	0.3	25
New Mexico	153	3.2	2.5	2.4	0.3	0.3	0.2	10
North Dakota	220	1.3	2.4	6.0	0.1	0.1	0.2	47
Oregon	227	6.7	7.1	6.2	0.4	0.5	0.6	7
Texas	186	3.8	4.2	4.6	0.3	0.3	0.3	18
Utah	188	3.8	4.7	5.0	0.2	0.3	0.4	40
US	150	3.2	3.4	3.4	0.3	0.3	0.3	
Sunbelt	169	3.8	3.7	4.1	0.3	0.3	0.3	
Excluding	144	2.4	2.6	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

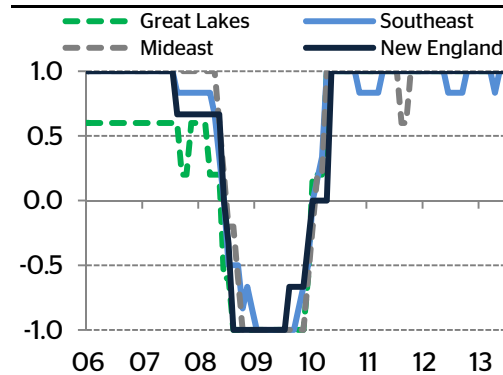
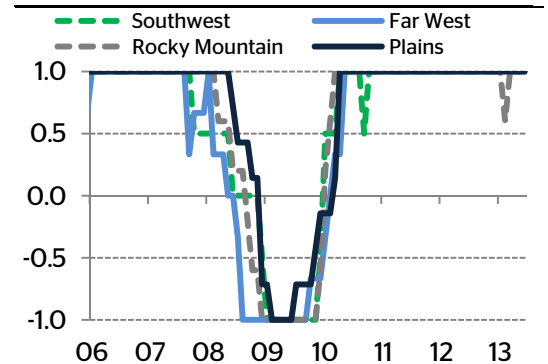


Chart 3  
Diffusion Index



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

Leisure & hospitality, financial activities, and the retail trade sectors drove state activity growth in June. These sectors grew in 38, 35 and 32 of the 50 states, respectively. In turn, overall activity grew in 35 states while it remained effectively unchanged in 15 states. The resurgence in consumer discretionary spending coincided with a non-trivial rise in real incomes. In addition, state and local governments have improved budget outlooks and appear to have been hiring more aggressively in 2Q13. Rising incomes and improvements in retail sector advanced activity in New Mexico and Arizona which had slowed in 2013.

Regardless of improvements in the consumer sector, our expectations for activity in 1H13 remain unchanged. A slowdown in manufacturing, a slightly weaker mining environment and uneven growth in the construction sector weigh on our outlook for activity. Moreover, aspects of the residential real estate market are likely to ease in 2H13. As mortgage rates rise, housing price appreciation will slow and refinancing activity will taper. Although home sales continue to increase and inventories remain low, the pickup in single-family construction will not offset slowing multifamily construction. Thus, we reaffirm our baseline scenario of 1.8%YoY growth in 2013.

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