

Economic Watch

United States

September 6, 2013

Economic Analysis

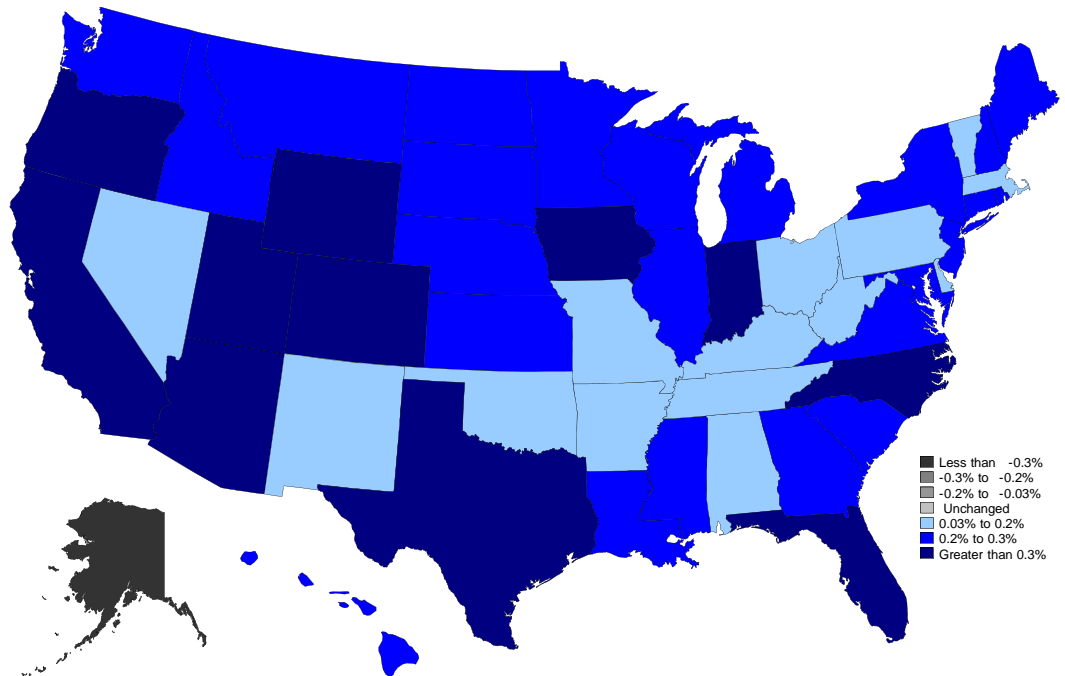
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State Activity Indexes July 2013

- In July, state activity¹ increased in 36 states, remained unchanged in 13 states and declined in 1 state.
- The pace of activity² improved in 21 states, slowed in 18 states and was unchanged in 11 states.
- Despite the uptick in interest rates and market’s expectations for a more negative contribution from government spending in 1H13, services remained strong and housing continues to contribute positively to state activity.
- Arizona, California, Colorado and Florida continue to benefit from the housing market recovery and resurgent construction sector. Alabama’s economic activity, although slightly down this month, has improved in 2013.

Chart 1
Activity Indexes, July 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



July 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	2.7	2.2	2.3	0.2	0.2	0.2	43
Arizona	172	4.3	3.0	3.7	0.4	0.4	0.2	9
California	164	4.6	4.2	4.6	0.4	0.4	0.3	8
Colorado	175	4.0	4.1	4.6	0.4	0.3	0.3	5
Florida	156	3.8	3.5	3.7	0.4	0.3	0.3	7
New Mexico	153	2.4	2.3	2.4	0.1	0.2	0.2	52
North Dakota	221	2.6	2.5	5.2	0.3	0.2	0.2	22
Oregon	228	6.9	7.2	6.4	0.6	0.6	0.6	1
Texas	187	3.6	4.0	4.6	0.3	0.3	0.3	12
Utah	189	4.3	5.1	5.2	0.5	0.4	0.4	2
US	151	3.5	3.6	3.5	0.3	0.3	0.3	
Sunbelt	169	3.8	3.7	4.1	0.4	0.3	0.3	
Excluding	144	2.6	2.6	2.7	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

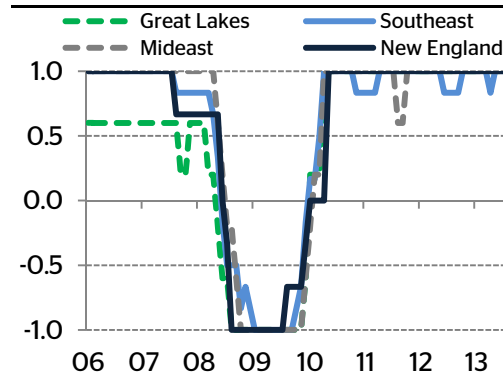
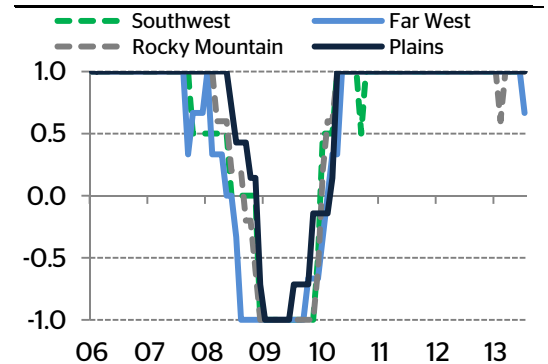


Chart 3
Diffusion Index



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

For the most part, state activity has remained resilient in spite of headwinds from declining government payrolls, geopolitical uncertainty and weaker global demand. In fact, Alaska was the only state that experienced negative growth in July and is only the third state in 2013 that experienced a decline in monthly activity. In terms of concentrations, the West Coast and Southwest continue to be the most economically active areas, driven by strong growth in the durable goods manufacturing, construction and mining sectors. As a result, 10 of the top 15 states in terms of state activity are from those regions. In addition, activity in the South and Southeast regions that includes Alabama and Georgia is recovering and should gain momentum in 2H13.

That being said, headwinds that were expected to emerge in 1H13 are now spilling over into 3Q13. Of note, personal income and investment indicators ticked down in July after remaining above market expectations for much of 1H13. As a result, durables and non-durable goods manufacturing and consumption trends could fall short of expectations in 2H13. Although risks are tilted to the downside, we maintain our baseline forecast for 1.8%YoY growth in 2013.

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