

# Economic Watch

United States

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## Economic Analysis

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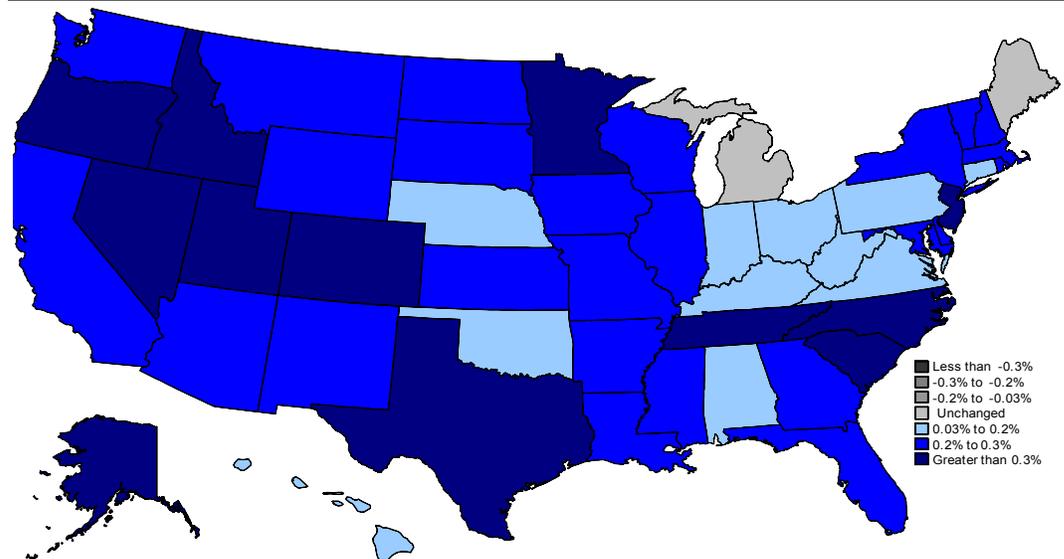
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## State Activity Indexes December 2012

- Despite headwinds from year-end policy uncertainty, state activity<sup>1</sup> increased in 38 states, and remained constant in 12 states.
- On the other hand, the negative impetus caused state growth<sup>2</sup> to decelerate in 6 states, remain constant in 33 states while only accelerating in 11 states.
- The aforementioned uncertainty and preliminary impacts of fiscal austerity slowed activity in some regions dependent on federal spending and manufacturing. To the upside, strong housing price appreciation underlies a stronger growth foundation in states disproportionately impacted by the housing crisis.
- Now, nearly three years removed from recession lows, the Sunbelt recovery continues to outpace the rest of the country. A slight deceleration in Alabama's December state activity should not overshadow general improvements in 2012. In addition, strong industrial diversity in Texas, a housing rebound in Arizona and strong income trends in California and Colorado continue to suggest upside potential for the region.

Chart 1

### Activity Indexes, December 2012, 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

December 2012		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	2.6	2.2	2.3	0.2	0.2	0.2	36
Arizona	173.8	3.9	4.0	4.4	0.3	0.3	0.3	8
California	165.0	4.1	4.2	4.5	0.2	0.3	0.3	6
Colorado	173.5	4.6	4.1	4.4	0.4	0.4	0.3	9
Florida	155.0	4.0	3.4	3.3	0.3	0.3	0.3	18
New Mexico	154.9	3.9	2.2	3.2	0.3	0.3	0.2	20
Oregon	231.6	5.2	5.7	6.6	0.5	0.4	0.5	2
Texas	179.7	4.4	4.1	4.7	0.3	0.4	0.3	5
North Dakota	198.3	4.5	6.1	8.1	0.2	0.4	0.5	1
Idaho	185.1	7.1	6.5	6.3	0.6	0.6	0.5	3
US	148.2	3.2	3.0	3.1	0.3	0.3	0.2	
Sunbelt	167.1	4.2	3.9	4.2	0.3	0.3	0.3	
Excluding	141.9	2.9	2.5	2.8	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

Chart 2  
Diffusion Index

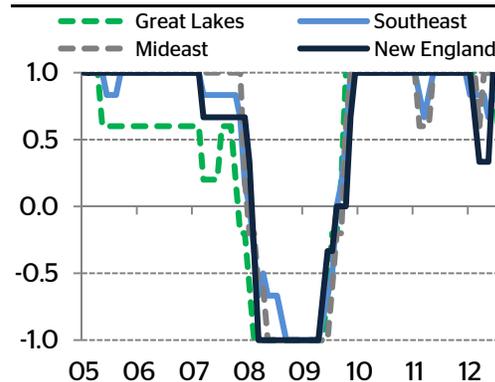
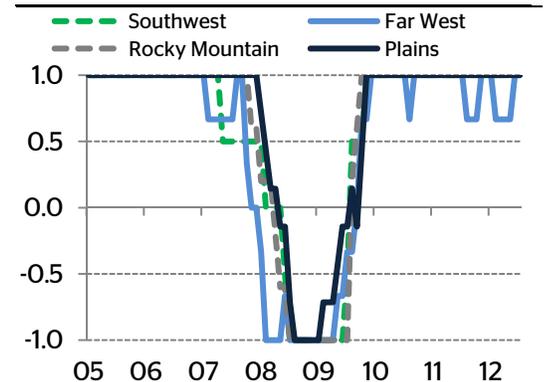


Chart 3  
Diffusion Index



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

Looking back, 2012 state activity was largely positive. Despite horrific drought conditions across large portions of the Midwest, catastrophic storms in the northeast, a highly uncertain policy environment and one of the most pivotal elections in decades, state activity is improving. States such as California, North Dakota, and Texas slowed in terms of annualized growth, yet remain in the top quintile with respect to 2012 state activity. Other states such as Alabama, New Mexico and Florida rebounded, owing to improved housing markets, demand expectations and household deleveraging. These trends support higher growth potential in the Sunbelt region particularly in states such as Texas, Colorado and Arizona.

In spite of strong underlying economic trends, aggregate state activity will slow in 2013. The impending federal spending reductions associated with the cap and sequestration provisions will cause a heterogeneous slowdown in state activity. Moreover, the pace of recovery in most states is not enough to offset the rapid reduction in federal spending. Thus, assuming no adjustment to current law, we expect the drag on activity associated with federal austerity to impact state activity as soon as 1Q13 with risks skewed to 2H13.

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