

Economic Watch

United States

April 8, 2014

Economic Analysis

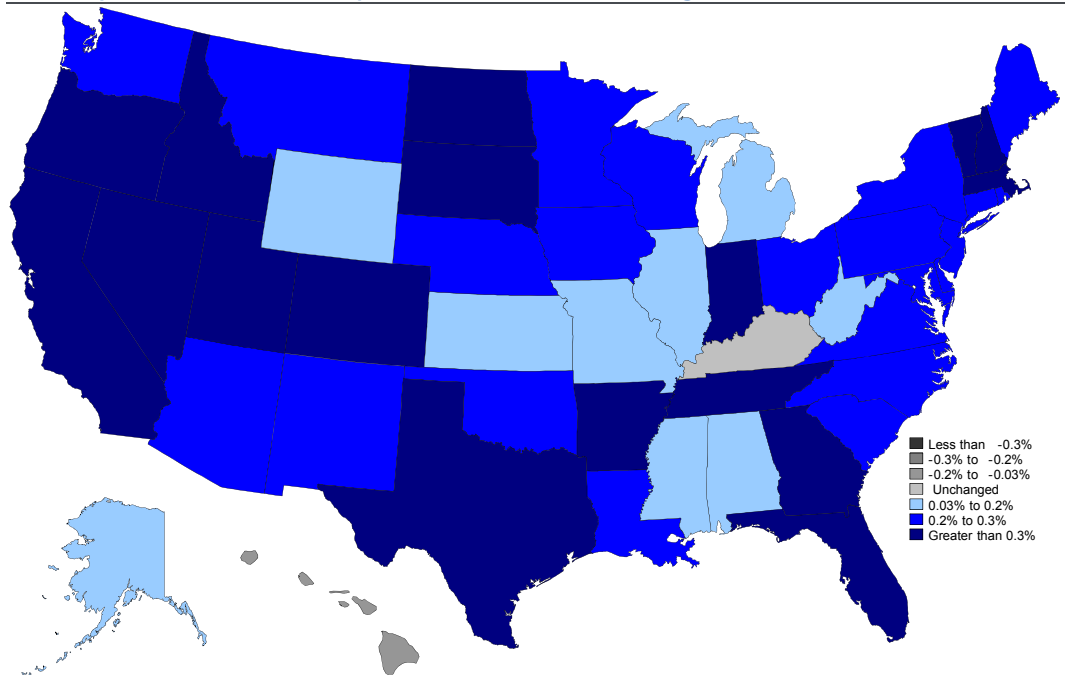
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State Activity Indexes February 2014

- Seasonal headwinds kept share of states with increasing activity constant at 80%.
- State output increased in 40 states and remained unchanged in 10. In addition, the pace of expansion improved in 16 states, slowed in 21 and was unchanged in 13.
- Activity downshifted in North and South Carolina, and Georgia, as gains in construction and housing failed to offset weaker employment growth. Global uncertainty and weaker demand from abroad also weighed on exports from these states.
- Positive trends in the residential and commercial real estate will continue to drive growth across the U.S. in the first half of the year.
- Activity on the West Coast and in resource rich areas will benefit from a remarkable recovery in housing, construction and export activity, and in turn outpace much of the country in 1H14.

Chart 1
Activity Indexes, February 2014, 1-Month % Change



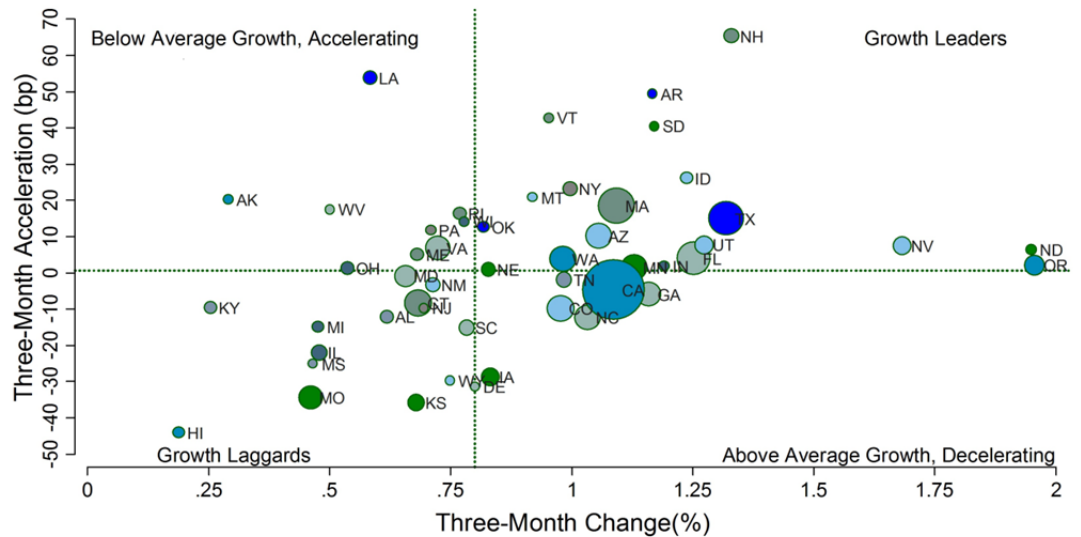
Source: BBVA Research
The state monthly activity indexes incorporate the latest sector-level employment data, exports, building permits and home price data for each state along with regional existing home sales. The value of the index corresponds to economic output where Jan-1996=100. A positive growth rate indicates economic expansion, and a negative value indicates contraction.

Table 1
Across the U.S., Selected Indexes

February 2014		Avg. Annualized Growth Rate (%)			BBVA Forecasts*			Activity Rank
State	Index	3 Mo.	6 Mo.	12 Mo.	Housing	Emp.	GDP	3 mma
Alabama	140	2.5	2.7	2.6	4.2	0.5	2.0	40
Arizona	174	4.3	4.1	3.8	10.9	2.5	3.4	16
California	167	4.4	4.5	4.9	13.1	2.3	3.2	15
Colorado	178	4.0	4.2	4.7	6.7	2.9	2.6	21
Florida	158	5.1	5.0	4.8	9.8	2.2	3.8	7
New Mexico	156	2.9	2.9	2.7	4.9	2.1	2.4	33
North Dakota	229	8.0	7.9	7.0	6.7	4.0	7.8	2
Oregon	235	8.1	8.0	7.9	8.9	1.9	5.2	1
Texas	191	5.4	5.1	4.9	5.7	3.0	3.4	5
Utah	193	5.2	5.0	4.8	5.5	4.5	3.3	6
US	153	3.2	3.3	3.3	6.2	1.9	2.5	
Sunbelt	172	4.4	4.4	4.5	9.3	2.1	3.3	
Excluding	146	2.8	2.9	2.8	5.7	1.2	2.2	

Source: BBVA Research, BLS
*6-month ahead annualized forecast ; GDP=2014 Growth Rate; Housing= FHFA Purchase Only Home Price Index & Emp.= BLS Nonfarm Payroll Employment

Chart 2
State Monthly Activity Growth by size & Acceleration Matrix



Source: BBVA Research, BLS
Notes: Median= dotted green line; Size of circle based on share of total U.S. GDP; shading indicates Census geographic region

Bottom Line

The outlook for most states remains stronger than would be inferred from the lack of acceleration in February's activity. First, although employment declined in a majority of states, construction activity continued to trend positively, adding to state output in 27 of 50 states. Second, low inventories and higher confidence will incentivize construction activity in a greater share of states; recent indicators of private investment in residential and non-residential properties suggest stronger upside potential. Third, despite historically low rates of household formation among young professionals, higher labor market confidence among millennials should incentivize first-time home buying and boost home prices. Fourth, higher demand for manufacturing and high-skilled labor will support income growth, which in real terms, has been stagnant since 2000. Expansion in construction and manufacturing, and increasing incomes will lead to positive spillover effects in other sectors. This underlies a scenario of stronger, and more broad-based economic growth in coming quarters.

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