

U.S.

Regional Watch

July 22, 2010

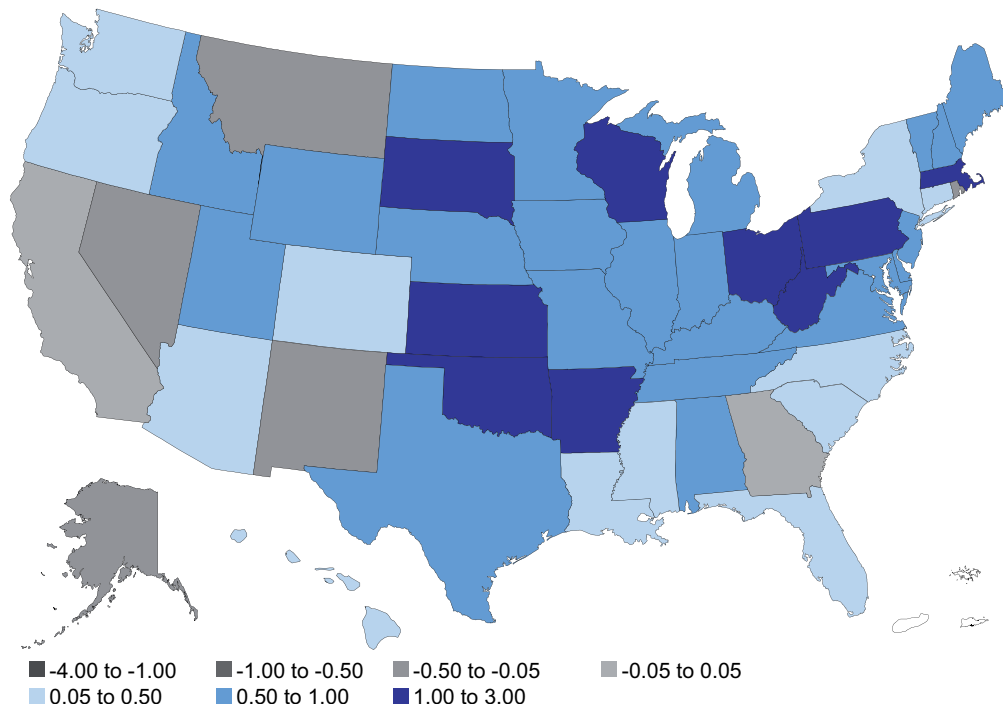
Economic Analysis

Jason Frederick
jason.frederick@bbvacompass.com

State Monthly Activity Analysis

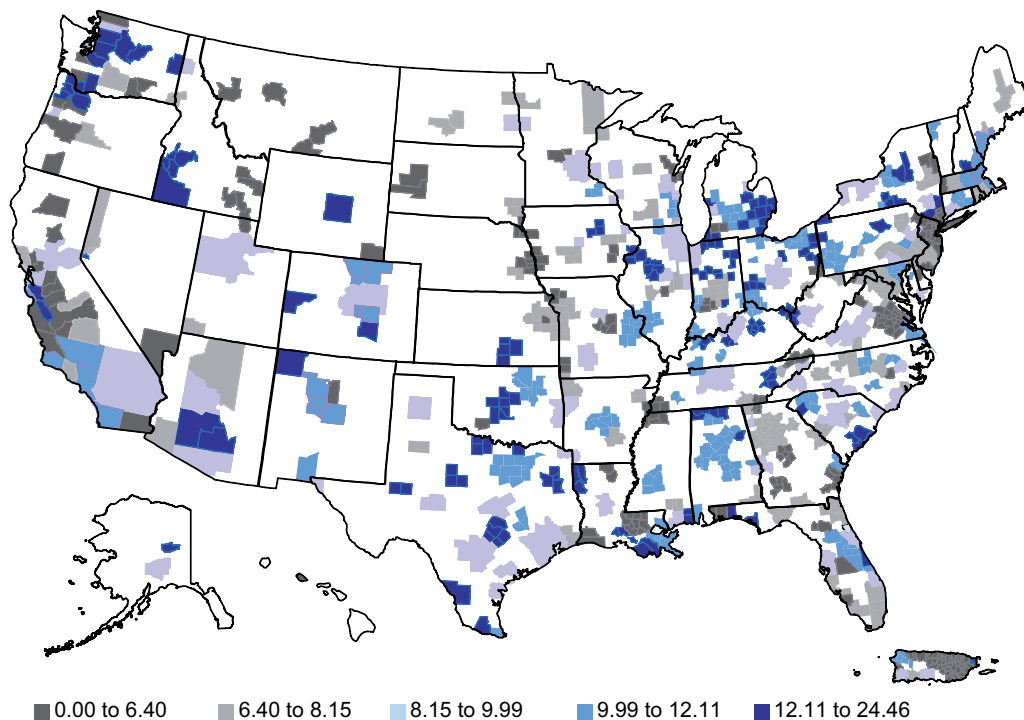
- The indexes detect a slowdown of activity across the U.S., which is consistent with our expectation of lower growth in the latter part of this year
- According to the 3-month moving average, 43 states are expanding, 2 states are stable (California and Georgia), and the remaining 5 states are contracting. This compares with 44 growing and 5 contracting states in June
- Compared to the previous month, the pace of economic activity improved in 19 states, remained unchanged in 9, and slowed in 22
- Activity in the BBVA Compass Sunbelt Region surpassed the U.S. average
- In the BBVA Compass Sunbelt, 4 of 7 states are rebounding at or above the U.S. as a whole. Activity in Colorado has strengthened as the index turned positive; however, activity remains stagnant in California and negative in New Mexico
- This month, we introduce the BBVA Compass Metropolitan Statistical Area (MSA) Industrial Production Indexes that are a proxy for local industrial output. The indexes include the manufacturing, mining, oil and gas and utilities sectors
- Industrial output across our footprint has lead the U.S.; Austin, TX, San Jose, CA, Huntsville, AL and Phoenix, AZ have some of the highest Y-o-Y growth rates
- Across the country, industrial production slowed in June. Our June MSA industrial production indexes increased in only 44% of 370 MSAs compared to 99% in May, 88% in April, 96% in March

Chart 1

BBVA Compass SMAI, July 2010, 3-Month Moving Average


The state monthly activity indexes incorporate the latest sector-level employment data, exports, building permits, home prices and housing sales data for each state (data through June). The above map presents the regional snapshot of economic activity. Positive values indicate expansion, negative values indicate contraction. An index value of 0 indicates no growth. Source: BBVA Research

Chart 2

June 2010, MSA Industrial Production, Y-o-Y Change, Quintiles, U.S.: 8.2%


A positive change indicates expansion in Industrial Production at the Metropolitan Statistical Area (MSA) level, while a negative value indicates contraction. We include the Y-o-Y change for the U.S. as a whole as a baseline comparison. Source: BBVA Research

Across the BBVA Compass Sunbelt

Table 1

Summary of State Monthly Activity Indexes, July 2010

State	July	Moving Average (MA)			Point Change in 3-Month MA		
	Index	3 Mo.	6 Mo.	12 Mo.	Δ1 Mo.	Δ3 Mo.	Δ12 Mo.
Alabama	-0.1	0.6	0.3	-0.4	0.0	1.3	2.4
Arizona	-0.2	0.4	0.3	-0.2	-0.1	0.5	2.3
California	-0.3	0.0	0.1	-0.5	0.0	1.0	2.0
Colorado	0.8	0.1	-0.2	-0.6	0.4	1.2	2.3
Florida	0.1	0.3	0.2	-0.5	0.2	1.3	2.2
New Mexico	-1.4	-0.3	-0.3	-0.8	-0.4	0.8	1.6
Texas	0.7	0.7	0.5	-0.1	-0.1	1.2	2.9
Sunbelt	0.2	0.4	0.3	-0.4	0.0	1.2	2.5
United States	0.3	0.3	0.3	-0.3	-0.1	0.8	2.4

The value of the index corresponds to economic growth. A positive index value indicates economic expansion, a value of 0 indicates no growth, and a negative value indicates contraction. The 3-month moving average comprises the current and prior 2 months' values of the index. This statistic helps to reduce volatility and identify a stable path; hence, it is a primary gauge of economic activity. For more information please review our [3Q08 U.S. Regional Watch](#).

Source: BBVA Research

Regional Assessment

The 3-month moving averages of the state monthly activity indexes indicate the strongest growth is occurring in Texas, Alabama and Arizona. This month, however, activity dipped significantly in Arizona, slightly in Alabama, and **continued to expand fervently in Texas**. Florida's expansion remains on par with the United States; however, activity in **California stalled** as the moving average remains at zero, and this month registered a negative index for the second consecutive month. Furthermore, New Mexico continues to decline, as the state registered a precipitous decline this month. **Colorado is beginning to expand**, as the moving average climbed into positive territory for the first time since the state entered the recession. As a region, **the Sunbelt's moving average rose above the U.S. average for the first time in this recovery period**.

Colorado's rise is consistent with our prior analysis, as we expected a turning point due to recent sector-level employment increases, a stable housing market and the state's late entry into the recession. While it is too early to determine if the recovery is solid, we nevertheless welcome the change. Industrial production in Colorado's MSAs has expanded near or slightly above the U.S., although their expansion slowed in June.

We expected a decrease of activity in California, Alabama and Arizona, as federal stimulus programs have wound down. Construction employment dropped significantly in Arizona and California, as the homebuyer tax credit expired, housing prices continue to slide, and housing sales and building permits have returned to low levels. The housing adjustment weighs on the recovery in these markets. Auto sales remain well-below pre-recession levels, and these lower sales translate into reduced economic activity in Alabama. Employment declined across all but two major sectors in June, as the Construction and Leisure and Hospitality sectors added just over 1,000 jobs.

In spite of the state-level activity declines in California, Alabama and Arizona, these states have some of the most dynamic Metropolitan Areas (MSAs) in the country. Industrial production indexes in Phoenix, AZ, San Jose, CA and Huntsville, AL have surged ahead of the U.S. average, as their investments in the **high-tech sectors aide their rebound**.

Texas remains the lone star of the Sunbelt region. We expected Texas to lead the recovery, and indeed, it continues to create many private sector jobs. State employment in the construction and the oil and gas industries continues to increase. Furthermore, its principal role as an exporter has helped it to benefit from robust external demand. Across Texas' MSAs, industrial production has exceeded the U.S. (most notably in Austin). As U.S. industrial production expanded only slightly in June, Dallas registered no expansion but Houston surged. The concentration of the oil and gas industry in Houston has helped its industrial output to weather the recession better than the U.S., as this industry's production steadily expands. Texas will continue to expand in the coming months; however, its pace appears to be cooling slightly. In June, private sector job creation was positive, but not nearly as strong as prior months, and the 3-month moving average of the SMAI ticked down slightly.

June's preliminary employment report was encouraging for Florida. Private sector employment expanded robustly, and the construction sector added workers. We expect activity in Florida to expand with the U.S.

or dampen slightly, as the state still suffers from fallout in its residential market. With the exception of Orlando, Florida's major MSAs have lagged the U.S. in their industrial production, and these indexes dipped considerably in June. Sustained exports have aided the state, and the unemployment rate has dropped 0.9% below its peak of 12.3% March. While a portion of that change is due to the drop in the labor force between March and June, in the past few months Florida has slowly created new private sector jobs.

Bottom Line

The regional picture is consistent with our view that U.S. economic growth will slow in the second half of 2010. Although the majority of states are expanding, nearly 50% of states experienced decreases in their rate of change. Nationwide, the BLS reported that overall employment increased in only 21 states in June. These results are consistent with a weak labor market, as the unemployment rates remain elevated across the footprint. We do not expect these rates to decline rapidly, and we expect a shift to a new structural level. The median number of weeks to find a job reached its highest level of nearly 6.5 months (25.5 weeks), while the workforce participation rate declines. The national assessment of the labor market does not bode well for states with higher than U.S. average unemployment rates, such as California, Florida and Alabama. The large numbers of unemployed workers in these states will have lasting impacts on the ability of these states to manage their budgets and provision public services. Across MSAs, industrial production dipped in nearly 50% of the country, as U.S. industrial production grew only slightly. Certainly, industrial production will need to increase further to reduce excess capacity throughout the economy.

Table 2

Industrial Production in Selected Sunbelt Region MSAs, June 2010 Y-o-Y Change Difference From U.S.

	Y-o-Y % Change, Relative to the U.S.	Change from Previous Month (%)
Alabama		
Birmingham-Hoover	3.3	0.9
Huntsville	6.6	-0.1
Mobile	2.5	0.0
Montgomery	2.9	-0.2
Arizona		
Phoenix-Mesa-Scottsdale	4.5	0.0
Tucson	1.4	0.3
California		
Los Angeles-Long Beach-Santa Ana	2.1	0.0
Riverside-San Bernardino-Ontario	0.4	0.0
Sacramento--Arden-Arcade--Roseville	1.6	-0.2
San Diego-Carlsbad-San Marcos	3.2	-0.1
San Francisco-Oakland-Fremont	0.2	-0.1
San Jose-Sunnyvale-Santa Clara	6.8	0.2
Colorado		
Denver-Aurora	0.4	-0.2
Colorado Springs	1.9	0.0
Florida		
Jacksonville	-1.0	-0.7
Miami-Fort Lauderdale	-0.2	-0.2
Orlando	2.5	0.0
Tampa-St. Petersburg-Clearwater	0.5	-0.2
New Mexico		
Albuquerque	3.5	0.2
Texas		
Austin-Round Rock	5.1	0.3
Dallas-Fort Worth-Arlington	2.7	0.0
Houston-Baytown-Sugar Land	1.7	0.4
San Antonio	0.9	-0.3

Source: BBVA Research

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