

U.S.

# Regional Watch

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## Economic Analysis

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## State Monthly Activity Index

- Activity slowed in 26 states and improved in 21, according to data through October.
- Based on the 3-month moving average, 19 states are expanding, 26 states are contracting, and 5 states are stable with no growth. This growth pattern is similar to the prior month.
- According to the month's contemporaneous index, 29 states expanded while only 14 contracted. These upticks are consistent with the observed +174K addition to nationwide non-farm employment in October.
- Given the lower-than-expected outcome for U.S. non-farm payrolls in November, we expect December's state indexes to weaken.
- Across the BBVA Compass Sunbelt, activity picked up in Arizona and pulled back in Alabama, Colorado, Florida and New Mexico, while it remained stable in Texas (the highest growth in the region) and California (sub-par, low growth).

Table 1

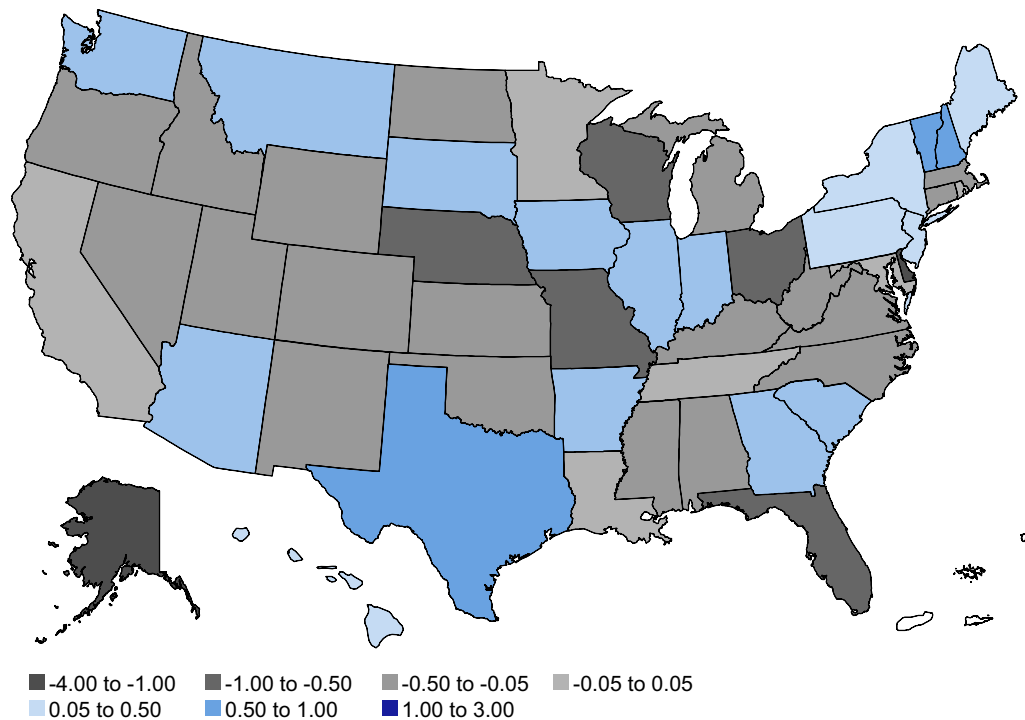
**Summary of State Monthly Activity Indexes, November 2010**

State	Index	Moving Average (MA)			Point Change in 3-Month MA		
		3 Mo.	6 Mo.	12 Mo.	Δ1 Mo.	Δ6 Mo.	Δ12 Mo.
Alabama	0.0	-0.5	0.2	0.0	-0.8	-0.6	0.6
Arizona	1.1	0.2	0.0	0.2	0.3	-0.4	1.2
California	0.3	0.0	-0.1	-0.1	0.0	0.0	1.0
Colorado	0.0	-0.1	0.0	-0.3	-0.1	0.4	1.0
Florida	0.3	-0.6	-0.1	-0.2	-0.3	-0.8	0.5
New Mexico	0.0	-0.5	-0.1	-0.2	-0.6	-0.2	0.9
Texas	0.7	0.5	0.7	0.4	0.0	0.1	1.3
Sunbelt	0.5	0.0	0.2	0.1	-0.1	-0.2	1.0
United States	0.4	0.3	0.3	0.2	0.0	0.0	1.6

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

Chart 1

**BBVA Compass SMAI, November 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 July). 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

## Behind the Numbers

Nationwide, the state monthly activity indexes confirm our expectation of a slowdown in 2H10. Compared to 6 months ago, the 3-month moving averages (3mma) are lower in 38 states. The indexes reflect the continued slow pace of private sector job creation, a softening pace of export growth along with further declines in home prices, sales and construction activity. As stimulus programs that boosted short term growth fade and the strength of the private-sector led recovery remains questionable, we expect these indexes to change little in the months ahead as we move into 2011. Given that the 3mma of the indexes in 31 states are below 0, growth is occurring well below trend in a majority of states.

The strongest monthly expansion occurred in Arkansas due to widespread employment gains in the services sectors, while Delaware's economy contracted along with its labor market. On a monthly basis, 29 states saw expansion, as their payrolls increased in October. This outcome is consistent with the +172K jobs added in October. The U.S. preliminary employment report for November reported only +39K net job gains, and thus we expect December's state indexes will weaken.

Texas, New Hampshire and Vermont's 3mma indexes are the highest in the nation, as relatively low unemployment rates, positive growth in service sector employment and upturns in home price indexes (in Texas and New Hampshire) aid expansion. Nevertheless, declines or little growth in the construction, manufacturing, and the retail and wholesale trade and transportation sectors underscore weak activity nationwide.

Within the BBVA Compass Sunbelt, Texas continues to lead the region's expansion; however, its pace of growth remained the same as the previous month. While Texas added a net of 47,900 jobs in October, nearly 40% of the total came from the government sector, and an additional 18% came from construction. Additions to manufacturing, trade and services sectors were unremarkable. The purchase-only housing price index has displayed a favorable positive trend in 2010, as 3Q10 data reveal a 1.10% year-over-year increase. This trend supports the state's housing market and construction activity – year-to-date building permit activity is up 3.0% over 2009. Furthermore, while the year-over-year pace of exports softened in 3Q10 as expected, they continue to boost Texas' petroleum and manufacturing industries.

In Alabama, October non-farm employment was flat, as no sector registered large gains. The housing price purchase index declined slightly in 3Q10, and remains close to 4% down on the year. Arizona's employment outlook brightened, as service sectors registered strong growth, and the construction industry increased payrolls significantly. The housing price index, however, continues to slide, and is down nearly 10% on the year as of 3Q10. California's home price purchase index slid slightly and is down less than 2% on the year; however, the all transaction index turned upward in 3Q10 and suggests a stabilization of prices. California added nearly 39,000 jobs with widespread gains across all but two major sectors. The decline in Colorado's home price purchase index accelerated in 3Q10; however, building permit activity is higher for the year. The mining, construction and government sectors added a combined total of 5,100 jobs – over 70% of Colorado's total net addition.

In Florida, the housing price purchase index slid slightly in 3Q10, and employment creation remains extremely weak. Total nonfarm payroll managed to tick up 6,900 jobs in October; however, the leisure and hospitality sector spiked 2% to add 17,800 jobs. Thus, other sectors continued to shed workers. Finally, while New Mexico managed to increase employment slightly, 80% of the total job creation occurred in the government sector, and the remainder came from the construction and other services' sectors. New Mexico's housing prices continue to slide, but are down approximately 4% on the year.

## Bottom Line

November's state monthly activity indexes reveal the 2H10 slowdown, as the 3-month moving averages are lower today than they were six months ago in 41 states. In the BBVA Compass Sunbelt region, this slowdown is most evident in Florida, Alabama, and Arizona as these states experienced a boost due to fervent export demand and stimulus measures that boosted housing sales. Alabama's sharp rise in activity rapidly brought down unemployment; however, Florida wades through low growth and unemployment heads upward. In California, the observed job creation in October is a welcome sign; however, it is too early to determine whether it has reached a stable turning point. As for Texas, while the rate of private sector job creation has slowed, it remains positive, and the state continues to boost its output. As we head into December, we expect our state activity indexes to indicate a moderation of economic activity.

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