

U.S. Regional Watch

February 1, 2011

Economic Analysis

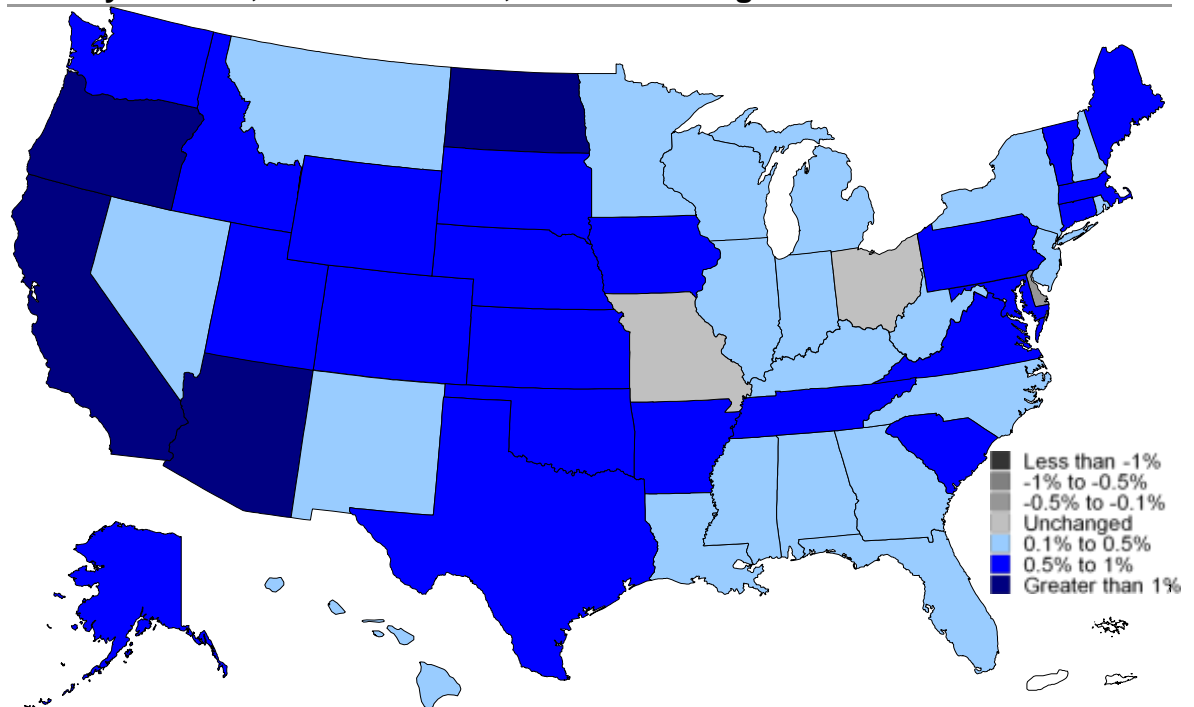
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State Activity Indexes December 2010

- Our state activity indexes are now benchmarked to state GDP
- Our U.S. activity index indicates that the economy expanded 2.9% in 2010 and 3.2% in 4Q10, consistent with BEA's advance release.
- We present the 3-month change in our indexes that corresponds to the change in GDP.
- According to this metric, 47 states are experiencing growth, 2 states are stable and only Delaware is exhibiting contraction. This statistic compares with 45 growing, 3 stable and 2 contracting states in November.
- The three-month average pace of growth increased in 19 states, eased down in 27, and remained essentially unchanged in the remaining 4.
- The west coast leads with the highest growth rates, as manufacturing and export activity continue to pick up.

Chart 1

Activity Indexes, December 2010, 3-Month Change



The state monthly activity indexes incorporate the latest sector-level employment data, exports, building permits, home prices and existing home sales data for each state along with forecasts for unavailable statistics. The blue color tones (positive index values) indicate expansion, while grey colors (negative index values) indicate contraction. Light grey (in the middle of the range) indicates no growth. The intensity of the colors represents the magnitude of the change. Source: BBVA Research

Across the BBVA Compass Sunbelt



Table 1
December 2010 State Activity Indexes

State	Index	Avg. Annualized Growth Rate			Percent Change in Index		
		3 Mo.	6 Mo.	12 Mo.	Δ1 Mo.	Δ3 Mo.	Δ6 Mo.
Alabama	132.9	1.2	1.9	2.2	0.0	0.3	1.0
Arizona	182.8	5.0	4.2	4.3	0.5	0.2	2.1
California	160.2	4.0	3.4	.6	0.3	1.0	1.7
Colorado	164.4	3.1	3.1	2.8	0.2	0.8	1.5
Florida	150.2	1.6	1.8	2.5	0.1	0.4	0.9
New Mexico	143.6	1.7	2.1	1.8	0.0	0.4	1.1
Texas	155.3	2.7	3.1	3.4	0.2	0.7	1.5
Sunbelt	157.1	3.2	3.1	3.4	0.2	0.8	1.6
US	141.4	3.2	3.0	2.9	0.3	0.8	1.5

The value of the index corresponds to economic output where Jan-1997=100. A positive growth rate indicates economic expansion, and a negative value indicates contraction. The 3-month moving average of growth 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. Source: BBVA Research.

Chart 2
Three-Month Regional Diffusion Indexes

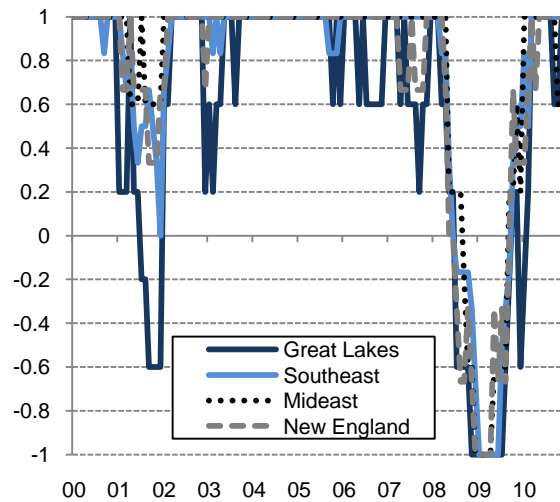
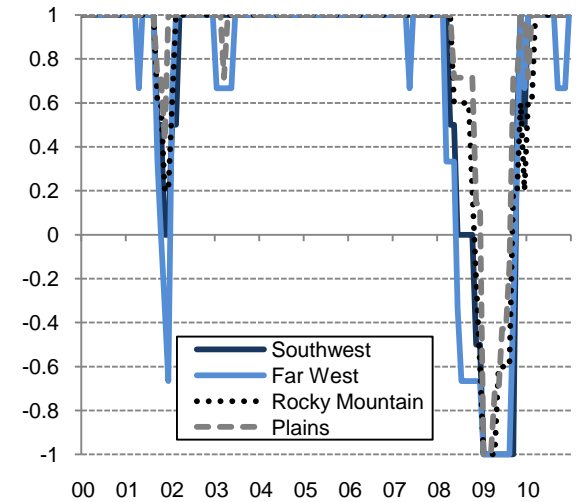


Chart 3
Three-Month Regional Diffusion Indexes



The diffusion indexes reflect the number of states in each BEA-defined region that are expanding versus those contracting. A value of 1 means that all states in the region are expanding that month, while a value of -1 means that all states are contracting. Negative values indicate that a majority of states in the region are contracting. Source: BBVA Research

State Index Assessment

Our state indexes reveal a fervent pace of growth in 4Q10, as economic activity strengthened on the West Coast, and cooled across the Great Lakes and northeast U.S. The result was an uptick in the national diffusion index to 48 (out of 50) which is the highest level since 2Q10 when activity was expanding in all 50 states.

Across the Sunbelt, activity accelerated in California, Florida and Arizona: this welcome trend partly reflects stabilizing housing prices and recovery in their residential real estate markets. While employment creation was still weak in December, growth should remain positive into 2011. A deceleration occurred in Alabama, New Mexico, Colorado and Texas as the first two saw a fall in employment, Colorado's total gain was negligible and Texas shed workers across a few service industries but managed to add 20,000 jobs.

In 4Q10, the Southwest, Rocky Mountain, Plains, Southeast and New England regions exhibited consistent expansion. In the Great Lakes, Michigan managed to register positive growth, and only Delaware currently lags in the Mideast region. As we expect payroll growth to strengthen in the coming months, growth in these indexes will pick up throughout the U.S.

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