

U.S.

Economic Watch

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Economic Analysis

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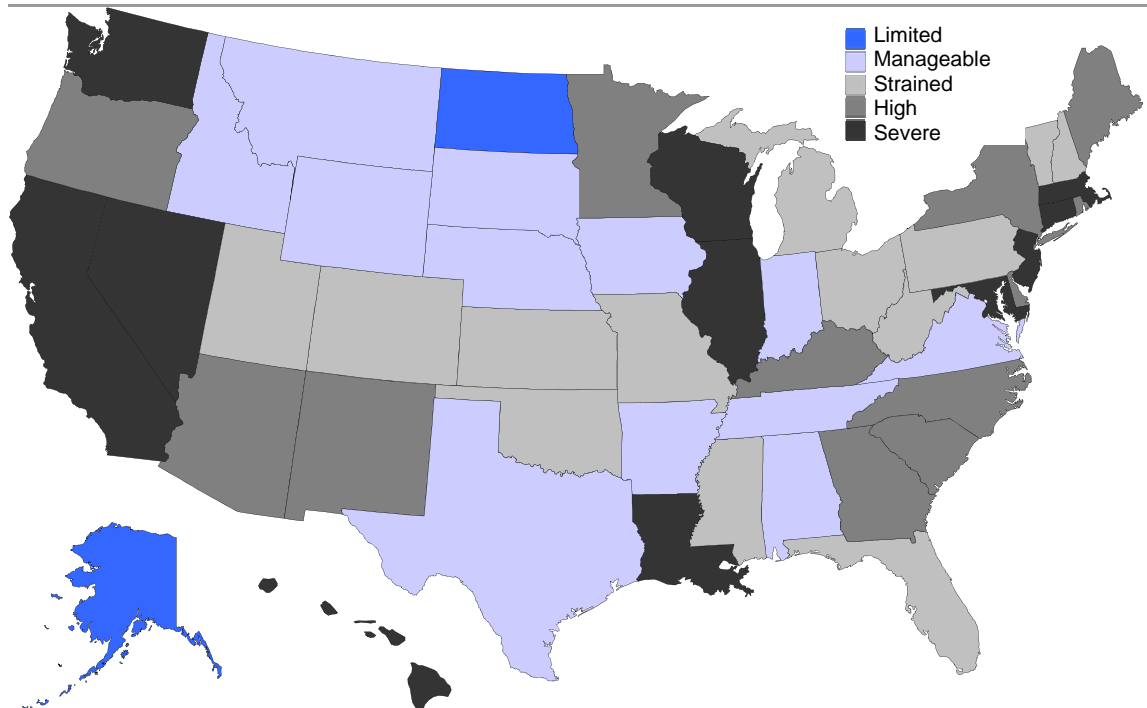
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State Fiscal Stress Indicator

- Our new state fiscal stress indicators reveal that states with the most budget pressures are suffering from high projected deficits, substantial debt burdens and persistently elevated unemployment.
- Each state's final indicator is formed from two components. First, a cyclical element consisting of quarterly state tax revenue, initial claims and economic activity. Second, a cross-state comparison built from latest available state budget and pension data.
- Only two states (North Dakota and Alaska) exhibit little or no perceived fiscal stress, as they are reporting no shortfall for FY2012 and revenues have recovered from their trough.
- While 48 states have elevated fiscal stress, we consider 12 states to have manageable fiscal challenges. Nevertheless, 21 states face the greatest hurdles to restructure their budgets in the face of rising interest payments on debt and high unemployment.
- States with the highest fiscal stress entail the greatest requirements for bipartisanship to craft credible and sustainable reforms.

Chart 1

Fiscal Stress Indicator



Our fiscal stress indicator is composed of two major components. First, a cyclical component combines three variables: the differences of state tax revenue and initial claims from their trends and the quarterly growth rate of the BBVA Compass state monthly activity index (a proxy for GDP). This cycle component reveals contemporaneous improvements in the state's fiscal situation. Second, a structural component compares the projected FY2011 budget shortfall, and the latest available data for the balance of the budget stabilization fund and interest payments as a share of expenses, the pension funding ratio, and the shortfall of government-wide total revenue and expenses. The cyclical and structural components are combined to form the final index. Source: BBVA Research

Table 1
Ranking of Individual States

State			Cyclical Components			5- Year Credit Default Swaps	
	Fiscal Stress Rank	Structural Rank (Budget Comparison)	Difference from Trend		3-Month Growth	* Not Available	
			Initial Claims	Tax Revenue		Current Price	1 Month % Change
	Higher rank denotes best position, ordered by lowest stress = 1						
AK	1	1	4	50	50	*	*
ND	2	2	6	2	10	*	*
AR	3	5	10	26	21	*	*
WY	4	3	44	49	32	*	*
TN	5	8	7	10	18	*	*
SD	6	13	34	12	4	*	*
IA	7	20	27	3	3	*	*
MT	8	4	40	46	24	*	*
NE	9	6	38	23	31	*	*
AL	10	10	19	8	37	*	*
ID	11	7	35	41	16	*	*
IN	12	11	32	25	20	*	*
TX	13	15	18	35	7	83	-0.82
VA	14	16	16	40	9	*	*
NH	15	33	48	1	11	*	*
MI	16	17	2	5	48	158	-18.86
PA	17	23	23	16	25	113	-6.01
FL	18	9	50	32	41	109	-18.42
VT	19	28	24	17	6	*	*
OH	20	14	20	15	47	118	-12.27
OK	21	21	39	36	14	*	*
WV	22	22	15	18	45	*	*
MS	23	25	1	22	35	*	*
UT	24	19	49	38	17	*	*
CO	25	26	42	33	8	*	*
MO	26	18	28	20	46	*	*
KS	27	29	37	13	33	*	*
MN	28	37	36	6	15	76	-2.20
NC	29	31	11	21	30	84	-2.14
SC	30	27	3	44	22	*	*
OR	31	45	26	14	2	*	*
DE	32	12	22	30	49	*	*
KY	33	35	5	11	38	*	*
NY	34	30	31	37	26	113	-33.49
NM	35	24	43	42	36	*	*
ME	36	40	25	9	19	*	*
RI	37	38	9	7	40	*	*
GA	38	32	46	29	28	*	*
AZ	39	44	45	31	1	*	*
MD	40	36	41	39	13	80	-7.12
WI	41	39	33	4	44	113	-4.55
MA	42	41	8	19	29	121	-10.00
WA	43	42	14	28	12	*	*
CA	44	46	30	34	5	209	-7.97
LA	45	34	12	47	42	*	*
HI	46	43	29	48	39	*	*
NJ	47	47	13	45	34	164	-11.35
IL	48	49	17	27	23	232	-9.97
CT	49	50	21	24	27	143	-5.15
NV	50	48	47	43	43	165	-5.39

Source: BBVA Research

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