

Economic Watch

US

July 11, 2011

Economic Analysis

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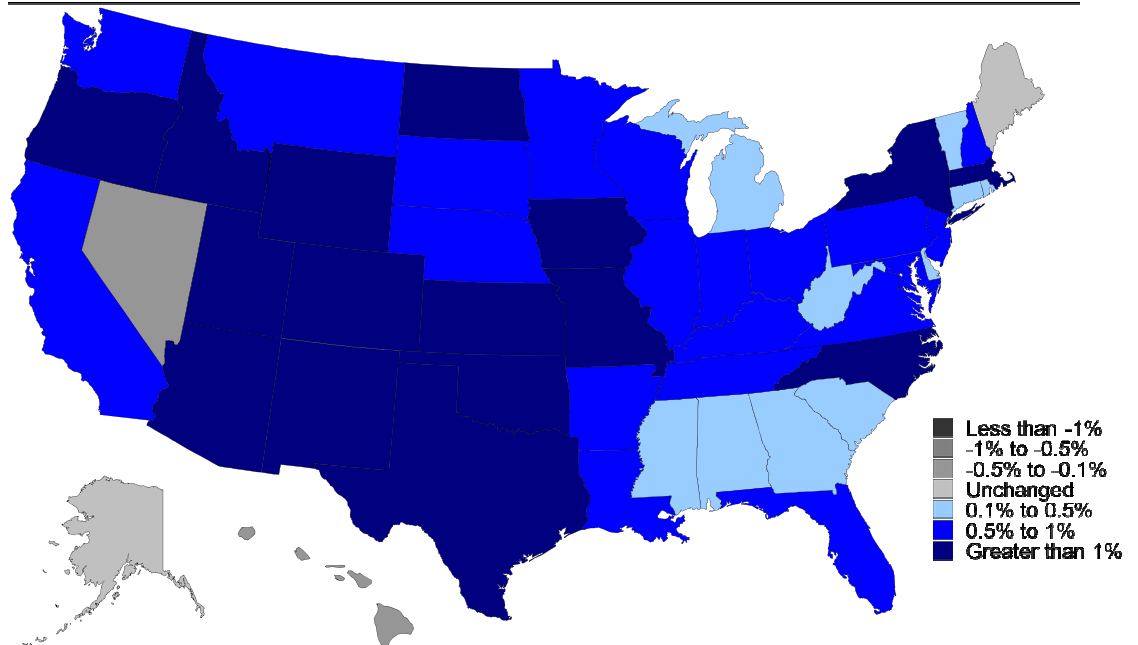
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State Activity Indexes May 2011

- The three-month moving average indicates expansion in 46 states, contraction in Nevada and Hawaii, and no change in Alaska and Maine. This compares with 47 expanding states last month and 49 expanding states in March.
- The pace of growth eased downward in 33 states and increased in 16. North Dakota, Wyoming and Kansas registered significant expansion.
- The moderation of growth is consistent with our baseline scenario of slowing growth through the remainder of the year. We expect little expansion in June.
- Growth in the Sunbelt remains above the U.S. average; but, the pace of growth declined in five of the seven states, slid slightly in Texas, and rose in Colorado.

Chart 1

Activity Indexes, May 2011, 3-Month Change



Source: BBVA Research

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.

Table 1
Across the U.S., Selected Indexes

BBVA Compass

| State | May 2011 Index | Avg. Annualized Growth Rate | | | Percent Change in Index | | |
|-------------------|----------------|-----------------------------|-------|--------|-------------------------|--------|--------|
| | | 3 Mo. | 6 Mo. | 12 Mo. | Δ1 Mo. | Δ3 Mo. | Δ6 Mo. |
| Alabama | 131.2 | 1.9 | 2.4 | 2.0 | 0.1 | 0.5 | 1.2 |
| Arizona | 165.5 | 4.2 | 4.2 | 2.7 | 0.4 | 1.1 | 2.1 |
| California | 156.2 | 2.5 | 4.4 | 3.8 | 0.1 | 0.6 | 2.2 |
| Colorado | 163.2 | 4.6 | 3.7 | 3.4 | 0.4 | 1.1 | 1.9 |
| Florida | 148.6 | 3.8 | 3.6 | 2.5 | 0.3 | 1.0 | 1.8 |
| Illinois | 125.5 | 3.1 | 2.9 | 2.3 | 0.2 | 0.8 | 1.4 |
| New Mexico | 150.6 | 4.4 | 3.9 | 2.8 | 0.1 | 1.1 | 1.9 |
| Nevada | 164.0 | -0.7 | 1.3 | 0.7 | -0.2 | -0.2 | 0.6 |
| Texas | 160.1 | 5.0 | 4.2 | 3.7 | 0.2 | 1.2 | 2.1 |
| United States | 141.5 | 3.4 | 3.5 | 3.0 | 0.2 | 0.9 | 1.7 |
| Sunbelt | 156.0 | 4.1 | 4.3 | 3.6 | 0.2 | 1.0 | 2.2 |
| Ex-Sunbelt | 135.5 | 3.3 | 3.1 | 2.7 | 0.2 | 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. **Bold denotes BBVA Compass sunbelt state.** Source: BBVA Research.

Chart 2
Three-month Diffusion Indexes

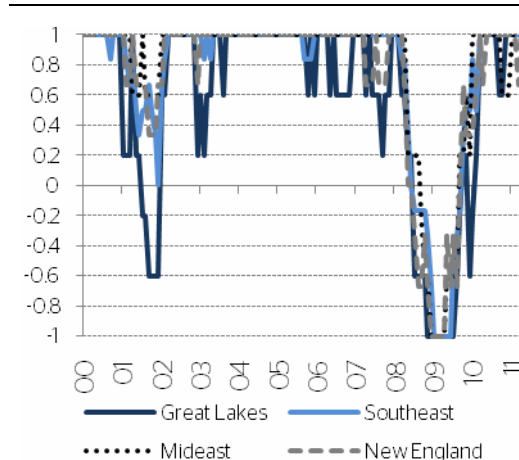
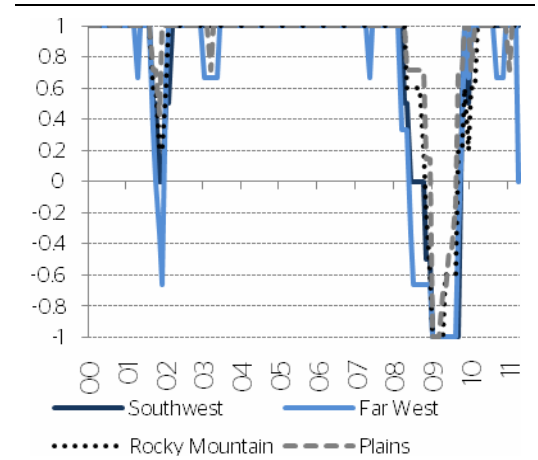


Chart 3
Three-month Diffusion Indexes



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

Bottom Line

The moderation of export activity, the slow pace of private hiring and the continued layoffs of state and local government workers are weighing on economic expansion across the U.S. While California looked to be a source of significant job creation in the first quarter, May's decline and downward revisions to the data indicate that hiring remains isolated to the technology sector. Within the Sunbelt, Colorado experienced the largest increase in its growth rate, as job creation was positive across many sectors, and the government sector did not shed workers. Florida showed signs of improvement, as it has registered 4 straight months of employment creation. While Texas continues to add workers in a variety of sectors, activity cooled in several service industries. Texas should remain among the leaders of GDP growth for the nation this year.

However, the BLS's downward revision to May's national employment report and the extremely weak employment report for June that indicated only 18K net jobs signals a further moderation of state activity ahead.

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