

Economic Watch

United States

February 13, 2012

Economic Analysis

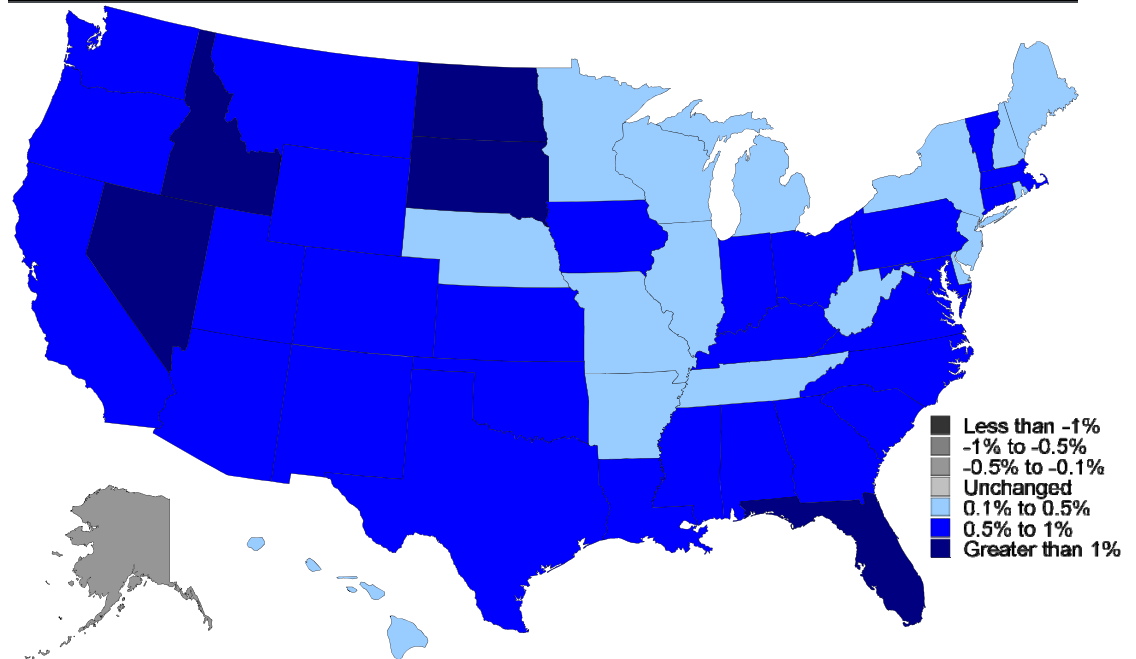
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State Activity Indexes December 2011

- In December, the indexes underscored broad-based growth in the U.S. in 4Q11. The observed expansion is consistent with the 0.7% change in U.S. GDP in the quarter - the fastest rate of the prior six quarters.
- The three-month average pace of growth strengthened in a majority of states; in December the pace accelerated in 34, declined in 13 was unchanged in 3 states. This compares to a softening pace in 18 states recorded in November.
- Activity in the BBVA Compass Sunbelt region remains positive; however, the pace of expansion slid in Texas, California, Arizona and New Mexico.
- Alabama and Florida registered increase in their 3-month average pace of growth due to an improvement in employment across a majority of industries.

Chart 1

Activity Indexes, December 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

State	December 2011 Index	Avg. Annualized Growth Rate (%)			Percent Change in Index		
		3 Mo.	6 Mo.	12 Mo.	Δ1 Mo.	Δ3 Mo.	Δ6 Mo.
Alabama	132.6	2.9	2.4	2.3	0.2	0.7	1.2
Arizona	168.2	3.2	3.1	3.0	0.2	0.8	1.6
California	159.0	3.5	3.6	4.0	0.3	0.9	1.8
Colorado	166.5	3.4	3.8	3.7	0.3	0.9	1.9
Florida	151.1	4.1	3.6	3.4	0.4	1.0	1.8
New Mexico	153.1	2.6	3.5	3.5	0.3	0.6	1.8
Oregon	181.4	3.8	4.0	5.1	0.4	0.9	2.0
Texas	163.2	3.4	4.1	4.1	0.3	0.9	2.1
Utah	161.2	4.0	4.5	4.0	0.3	1.0	2.2
US	143.4	3.3	3.0	3.1	0.3	0.8	1.5
Sunbelt	158.8	3.6	3.9	4.0	0.3	0.9	1.9
Excluding Sunbelt	137.2	2.2	2.3	2.7	0.2	0.6	1.1

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

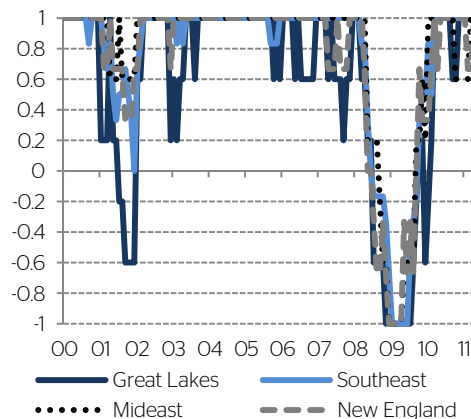
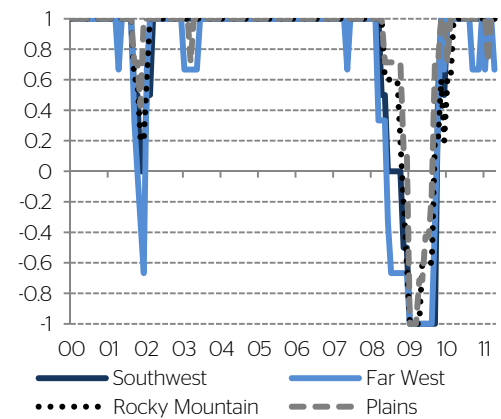


Chart 3
Three-month Diffusion Indexes



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

As 2011 wound to a close, the pace of expansion in the U.S. rose to its highest rate since mid-2010. The higher observed growth is partly the product of a strengthening labor market, improvements in manufacturing activity and sustained exports. Furthermore, a wave of new investment is benefiting many U.S. states involved in energy production. Energy-related expansion is transforming North Dakota, South Dakota and Pennsylvania while significantly boosting Texas, Louisiana, Colorado, Wyoming and New Mexico.

In addition to energy, the other transformational sector is related to high-tech. Over the past twelve month period, Idaho, California, Oregon and Massachusetts are among the fastest expanding states according to our state monthly activity index, and this robust growth can be traced to their roots as leaders in the technology sector. Utah has also seen rapid expansion, and, interestingly, it is benefiting from both energy and high-tech trends - employment in mining is up nearly 10%, and that of computer software design services is up over 11%. We expect these trends to continue driving growth in 2012 as worldwide demand for energy and tech remains strong.

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