

Economic Watch

United States

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Economic Analysis

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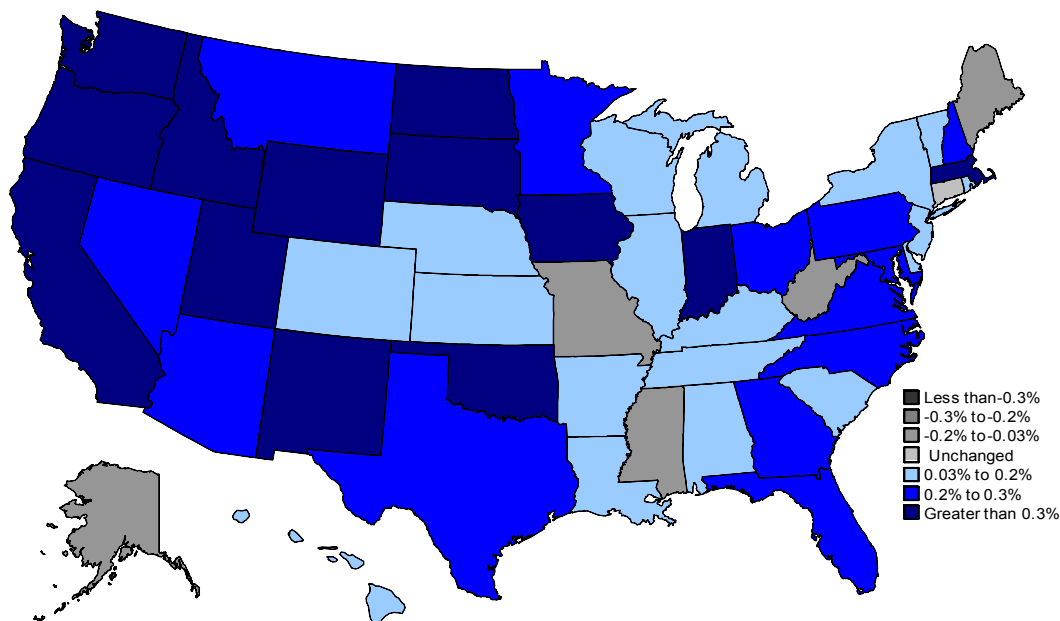
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State Activity Indexes June 2012

- Exceptional drought conditions dampen activity in much of the Midwest and central United States. Again, high-tech hubs on the coasts surge in terms of activity.
- State activity accelerates in 12 states, remains unchanged in 7, and decelerates in 31.
- Energy dependent states such as Texas and North Dakota slow as natural gas production and crude oil prices decline. Negative impacts of weak employment creation weigh on low-tech manufacturing areas.
- The Sunbelt outperforms the remaining US states by 1.3pp. Relatively normal precipitation levels in much of the Sunbelt—excluding Colorado and Alabama—helped buoy aggregate activity in the region.

Chart 1

Activity Indexes, June, 2012, 1-Month % Change



Source: BBVA Research

The state monthly activity indexes incorporate the latest sector-level employment data, exports, building permits and home price data for each state along with regional existing home sales.

Table 1
Across the U.S., Selected Indexes

BBVA Compass

June 2012		Avg. Annualized Growth Rate (%)			Percent Change in Index			Growth Rank*
State	Index	3 Mo.	6 Mo.	12 Mo.	Δ1 Mo.	Δ3 Mo.	Δ6 Mo.	MoM
Alabama	139	2.1	2.3	2.3	0.1	0.2	0.2	37
Arizona	171	4.9	4.4	3.5	0.3	0.4	0.2	16
California	162	4.9	4.6	4.1	0.5	0.3	0.3	6
Colorado	170	3.0	4.2	3.9	0.1	0.4	0.2	10
Florida	153	3.1	3.3	3.2	0.2	0.3	0.3	22
New Mexico	152	5.0	4.0	3.3	0.4	0.3	0.2	18
Oregon	225	8.7	7.1	6.3	0.7	0.5	0.4	2
Texas	176	4.3	5.0	4.8	0.3	0.4	0.4	4
North Dakota	194	7.9	10.0	9.4	0.5	0.9	0.9	1
Nevada	179	4.6	3.3	3.3	0.3	0.2	0.3	17
US	146	3.7	3.7	3.4	0.4	0.3	0.3	
Sunbelt	164	4.0	4.3	4.1	0.3	0.3	0.4	
Excluding	140	2.7	3.2	2.8	0.2	0.3	0.2	

The value of the index corresponds to economic output where Jan-1996=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.

*Growth Rank= 12-month average annualized growth

Chart 2
Regional Growth Activity (12-month % change)

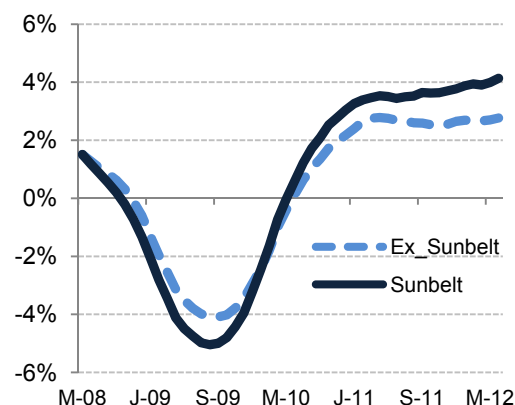
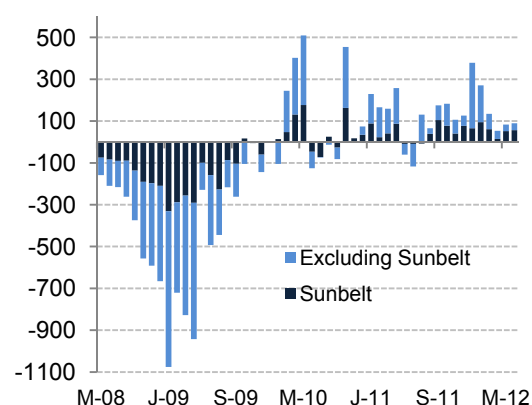


Chart 3
Change in Nonfarm Payrolls (k)*



Source: BBVA Research, BLS / Haver Analytics. Note: due to different surveys, the regional change in total nonfarm payrolls may not equal the national statistic.

Bottom Line

Downside risks to growth remain, and thus regional activity will diverge in 2H12. First, a slowdown in emerging markets and the onset of recession in Europe has weakened export demand. This has led to lower activity in areas more dependent on manufacturing. Second, employment growth remains weak—possibly a byproduct of current market uncertainty. Furthermore, state and local government payrolls continue to contract, thus compounding weak and uneven job creation. Although the housing market has shown signs of stabilization buoyed by new construction activity, low inventories of homes for sale and slowing job growth hold back market activity regardless of historically low interest rates. Finally, severe drought conditions in the U.S. heartland threaten to further dampen activity and erode 2H12 growth potential. Going forward, we expect that areas with higher concentrations of high-tech and energy will continue to outperform those areas that are more dependent on manufacturing and local government employment.

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