

Economic Watch

United States

August 27, 2012

Economic Analysis

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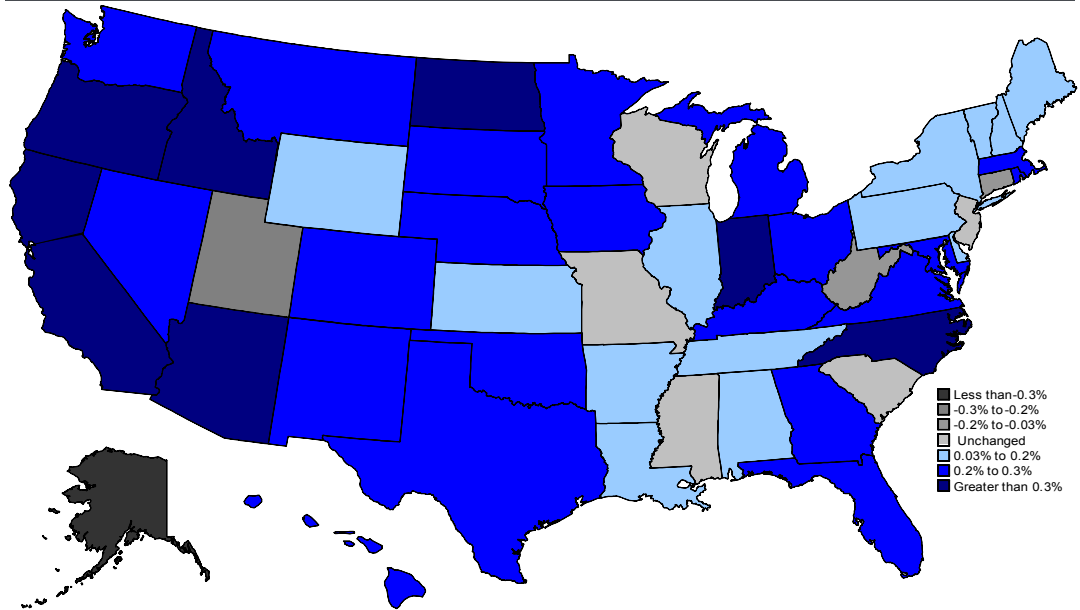
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State Activity Indexes July 2012

- In July, state activity increased in 41 states, was unchanged in 5 states and declined in 4 states.
- In terms of growth trends, our index suggests accelerating activity in 11 states, no acceleration in 7 states, and slowing activity in 32 states
- Regional divergence has intensified. In the western U.S., mining and specialized manufacturing buoy activity. However, the Eastern half of the U.S. lags due to low housing and residential construction, weak labor markets, and slowing manufacturing output.
- Outside of weakening activity in the southeastern portion of the BBVA Compass Sunbelt, the region remains an above average contributor to national activity. The difference between 3-month growth rates in the Sunbelt and the rest of the country widened to 1.4pp.

Chart 1

Activity Indexes, July, 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

July 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	132.1	1.4	2.2	2.2	0.1	0.2	0.1	36
Arizona	172.0	4.5	4.6	3.8	0.3	0.5	0.3	13
California	163.0	5.3	4.8	4.3	0.4	0.3	0.4	5
Colorado	171.1	3.7	4.2	4.1	0.3	0.3	0.5	7
Florida	153.3	2.9	3.1	3.1	0.2	0.2	0.3	22
New Mexico	153.2	4.5	4.2	3.5	0.3	0.5	0.3	16
Oregon	226.9	8.3	7.0	6.4	0.6	0.6	0.6	2
Texas	177.1	3.8	4.4	4.7	0.2	0.4	0.6	4
North Dakota	195.6	7.1	9.8	10.1	0.5	0.9	1.0	1
Nevada	179.7	4.2	3.2	3.3	0.3	0.4	0.3	18
US	146.8	2.9	3.1	3.2	0.2	0.2	0.3	
Sunbelt	165.0	4.0	4.2	4.1	0.3	0.3	0.4	
Excluding	140.7	2.6	2.9	2.8	0.2	0.2	0.3	

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
Diffusion Index

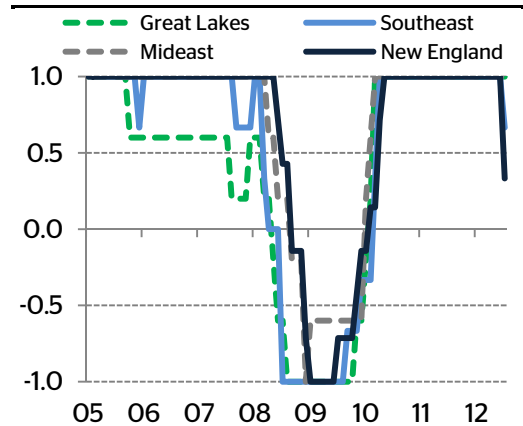
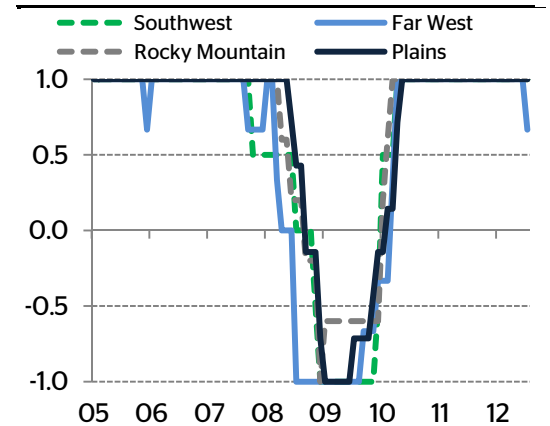


Chart 3
Diffusion Index



Source: BBVA Research, BLS / Haver Analytics.

Diffusion Index: Reports the number of states that grew in the past three months as a fraction of the total number of states in that region. For example, a value of one indicates that all states within the region grew, zero suggests half the states expanded, and -1 suggests all the states in that region contracted.

Bottom Line

The July activity index clearly indicates slowing activity across the nation. The sharpest slowdown is seen in the southeastern and northeastern U.S. Furthermore, the steadfast strength in the western U.S. has softened, due to contraction in state and local government employment and tepid housing demand and consumption.

In total, 32 states decelerated, 7 remained unchanged while only 11 accelerated in July. States such as Texas, North Dakota and Colorado, which had experienced extraordinary growth in 1H12, saw a slight downtick in July. Energy price volatility and natural gas supply constraints underlie that correction. Despite that slight pullback, their growth remains strong, and the less energy-rich Sunbelt states experienced modest improvements in the housing sector and exports. Looking forward, we expect activity to slow further. Weakening national and foreign demand, persistent drought conditions across much of the U.S., and stubbornly slow job creation underscore our outlook for 2H12.

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