

# Economic Watch

## United States

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### Economic Analysis

Jason Frederick  
jason.frederick@bbvacompass.com

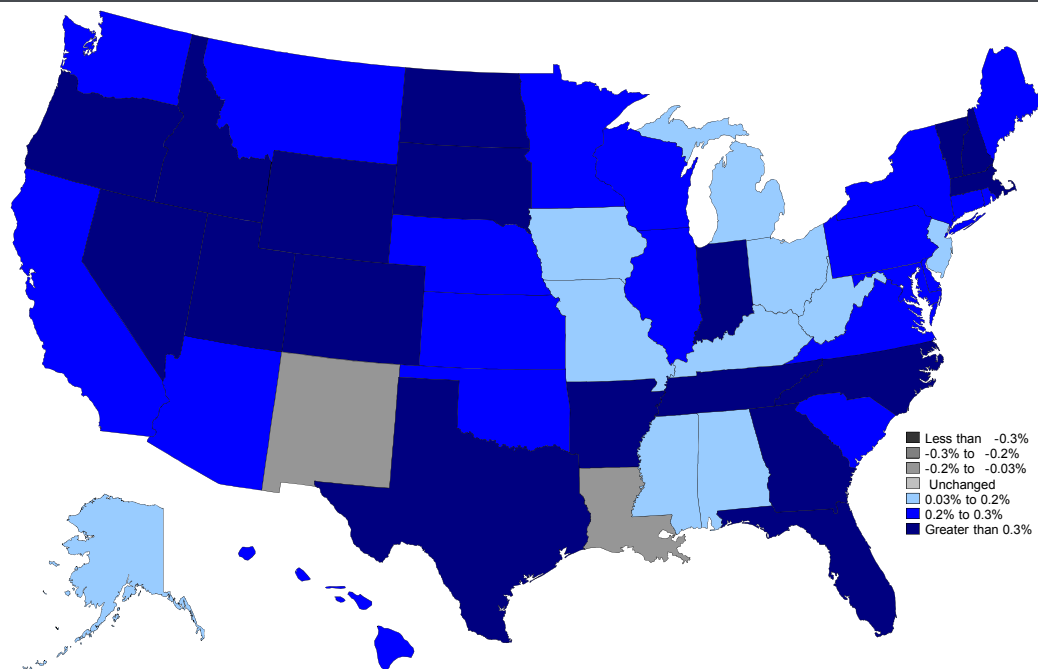
Boyd Nash-Stacey  
boyd.stacey@bbvacompass.com

## State Activity Indexes March 2014

- State output increased in 37 states and remained unchanged in 13 states. In addition, the pace of expansion improved in 16 states, slowed in 19 and was unchanged in 15.
- Uneven job gains and deceleration in the housing sector brought down the share of states with increasing activity to 74%.
- Manufacturing and construction continue to drive activity in the southeastern U.S. On a year-over-year basis, Florida and Georgia are top-ten states for growth.
- The West Coast continues to benefit from a resilient housing market despite higher interest rates and surging home prices eroding affordability.
- Expansion in higher-wage occupations within the manufacturing and construction sector will drive activity across the Midwest and Southeast.

Chart 1

### Activity Indexes, March 2014, 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. 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.

Table 1

## Across the U.S., Selected Indexes

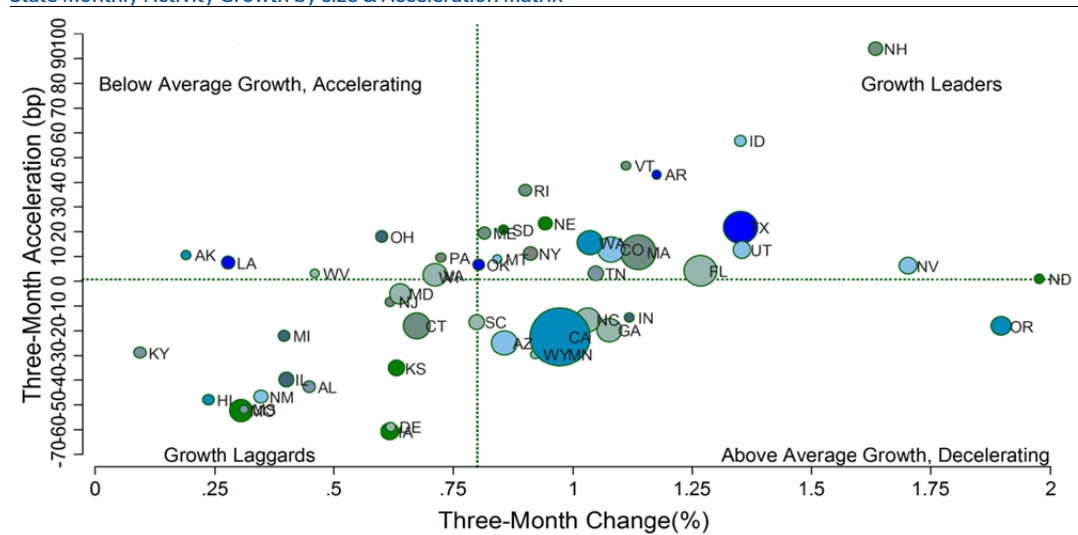
March 2014		Avg. Annualized Growth Rate (%)			BBVA Forecasts*			Activity Rank
State	Index	3 Mo.	6 Mo.	12 Mo.	Housing	Emp.	GDP	3 mma
Alabama	140	1.8	2.7	2.5	4.2	1.0	2.0	41
Arizona	175	3.5	4.0	3.8	10.9	2.6	3.4	24
California	167	4.0	4.4	4.7	13.1	2.2	3.2	18
Colorado	179	4.4	4.1	4.6	6.7	0.6	2.6	13
Florida	158	5.2	5.1	4.9	9.8	2.2	3.8	8
New Mexico	156	1.4	2.4	2.4	4.9	0.9	2.4	44
North Dakota	229	8.2	8.1	7.2	6.7	4.8	7.8	1
Oregon	236	7.8	8.2	7.8	8.9	2.4	5.2	2
Texas	191	5.5	5.1	4.9	5.7	2.9	3.4	7
Utah	193	5.5	5.3	4.8	5.5	4.9	3.3	5
US	153	3.3	3.4	3.3	6.2	1.9	2.5	
Sunbelt	173	4.2	4.4	4.4	9.3	2.1	3.3	
Excluding	146	2.6	2.9	2.8	5.7	1.2	2.2	

Source: BBVA Research. BLS.

\*6-month ahead annualized forecast : GDP=2014 Growth Rate; Housing=FHFA Purchase Only Home Price Index & Emp.=BLS Nonfarm Payroll Employment

Chart 2

### State Monthly Activity Growth by size & Acceleration Matrix



Source: BBVA Research. BLS

Notes: Median= dotted green line. Size of circle based on share of total U.S. GDP; shading indicates Census geographic region.

## Bottom Line

Similar to February's underwhelming data, growth in March tilted to the downside. Slower levels of job growth, upticks in unemployment rates in some areas and deceleration in home prices led to a tepid growth environment in 1Q14. In fact, the preliminary estimate for GDP suggests that growth was not statistically different than zero in 1Q14. Nevertheless, certain areas of the U.S. remain insulated from negative headwinds. For example, Florida's manufacturing sector is benefiting from positive export trends, likely due to improvements in the global outlook. Also, domestic improvements in consumer confidence are boosting tourism related activities. For Georgia, a slight downtick in income and lower growth in residential construction activity has not derailed strong job gains over the past six months. Like Georgia, Texas has avoided many of the negative headwinds plaguing the rest of the country. Notwithstanding the rise in interest rates and home prices, we expect affordability to remain within a comfortable range for most first-time home buyers. A strong housing market and improvements in the global outlook will benefit the construction and manufacturing sectors, and suggests that economic activity in 2Q14 will be considerably stronger than 1Q14.

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