

Economic Watch

United States

May 29, 2014

Economic Analysis

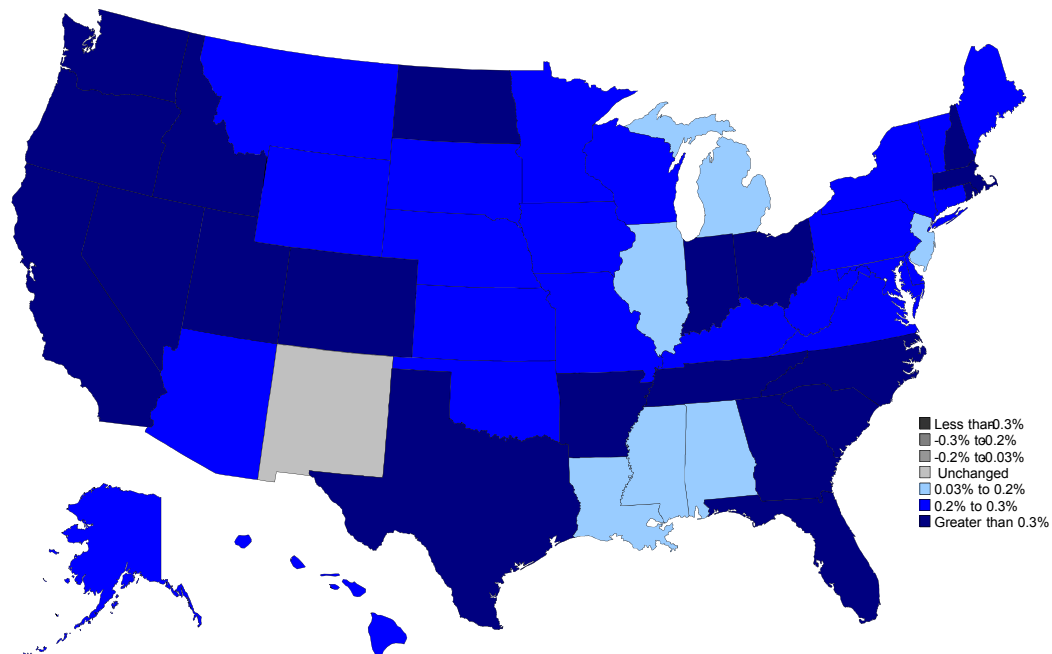
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State Activity Indexes April 2014

- State output increased in 43 states and remained unchanged in 7 states. In addition, the pace of expansion improved in 32 states, slowed in 13 and was unchanged in 5.
- Employment growth offset weak residential home sales allowing 86% of the country to experience increasing activity.
- The Plains states are fading to middle of the pack after a strong 2H13, as weakness in the housing sector weighed on construction activity and hiring. Despite weaker income growth, the West Coast continues to benefit from above average housing activity and growth in construction employment.
- Although still lagging in the recovery, Alabama and New Mexico's outlook is tilted to the upside for 2H14
- If growth is to remain on track for 2014, construction and manufacturing activity will have to offset headwinds forming in the housing market

Chart 1

Activity Indexes, April 2014, 1-Month % Change



Source: BBVA Research

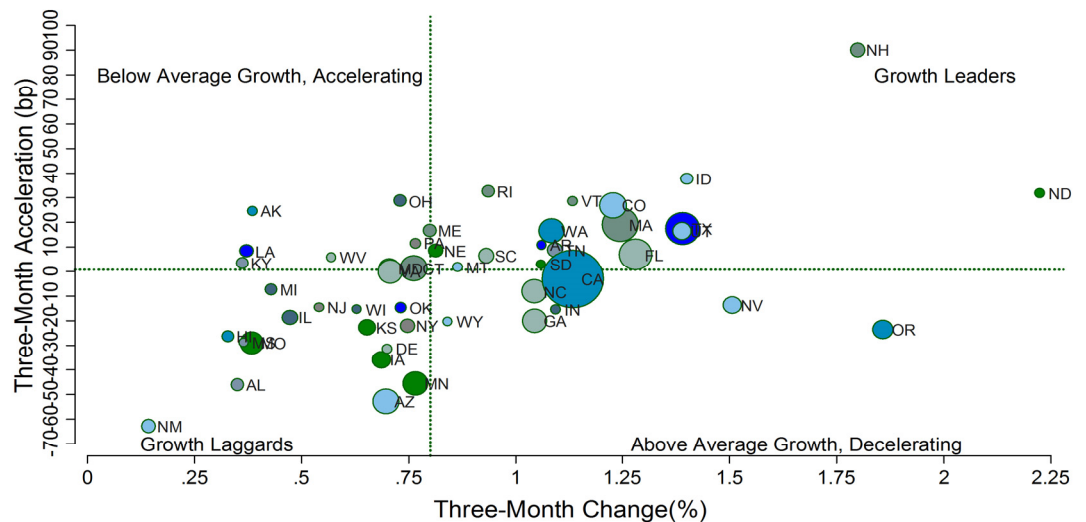
The state monthly activity indexes incorporate the latest sector-level employment data, exports, building permits and home price data for each state along with regional existing home sales. The value of the index corresponds to economic output where Jan-1996=100. A positive growth rate indicates economic expansion, and a negative value indicates contraction.

Table 1
Across the U.S., Selected Indexes

April 2014		Avg. Annualized Growth Rate (%)			BBVA Forecasts*			Activity Rank
State	Index	3 Mo.	6 Mo.	12 Mo.	Housing	Emp.	GDP	3 mma
Alabama	140	1.4	2.3	2.4	4.6	1.0	2.0	48
Arizona	175	2.8	3.9	3.7	13.2	3.2	3.4	35
California	168	4.6	4.7	4.6	6.4	3.0	3.2	11
Colorado	179	5.0	4.4	4.7	7.6	3.4	2.6	10
Florida	159	5.2	5.1	4.9	9.9	3.6	3.8	8
New Mexico	156	0.6	1.8	2.2	4.9	0.9	2.4	50
North Dakota	230	9.2	8.5	7.7	7.9	5.8	7.8	1
Oregon	237	7.6	8.1	7.7	9.2	4.0	5.2	2
Texas	192	5.7	5.3	5.1	6.3	2.5	3.4	6
Utah	194	5.7	5.3	4.9	4.8	4.2	3.3	7
US	153	3.6	3.5	3.4	5.9	1.8	2.5	
Sunbelt Excluding	173	4.6	4.5	4.5	7.7	2.9	3.3	
Excluding	146	2.7	2.9	2.9	5.2	1.6	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

Many states that are still on the mend are gaining momentum as economic tailwinds begin to strengthen at their backs. New Hampshire's job gains over the month of April in manufacturing, construction and professional services catapulted the activity past states leading in the recovery such as North Dakota, which is experiencing a revolution in energy exploration and extraction, and Oregon, which is a high-tech manufacturing hub. In Colorado, an uptick in mining activity and acceleration in the manufacturing sector pushed the state back into the top-ten for activity. Stronger prospects for economic growth abroad, less policy and business uncertainty, and a more resilient financial sector have allowed business-to-business activity to strengthen, as well as growth in financial services employment to expand in Massachusetts. The financial sector's response to business uncertainty will impact the flow of credit to the non-financial sector, which could, depending on the response, dampen the outlook for some areas. Regardless, for growth to exceed our baseline scenario of 2.5% growth in 2014, we believe that construction and manufacturing will have to take contribute more strongly to the over all economy.

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