U.S. Regional Economics

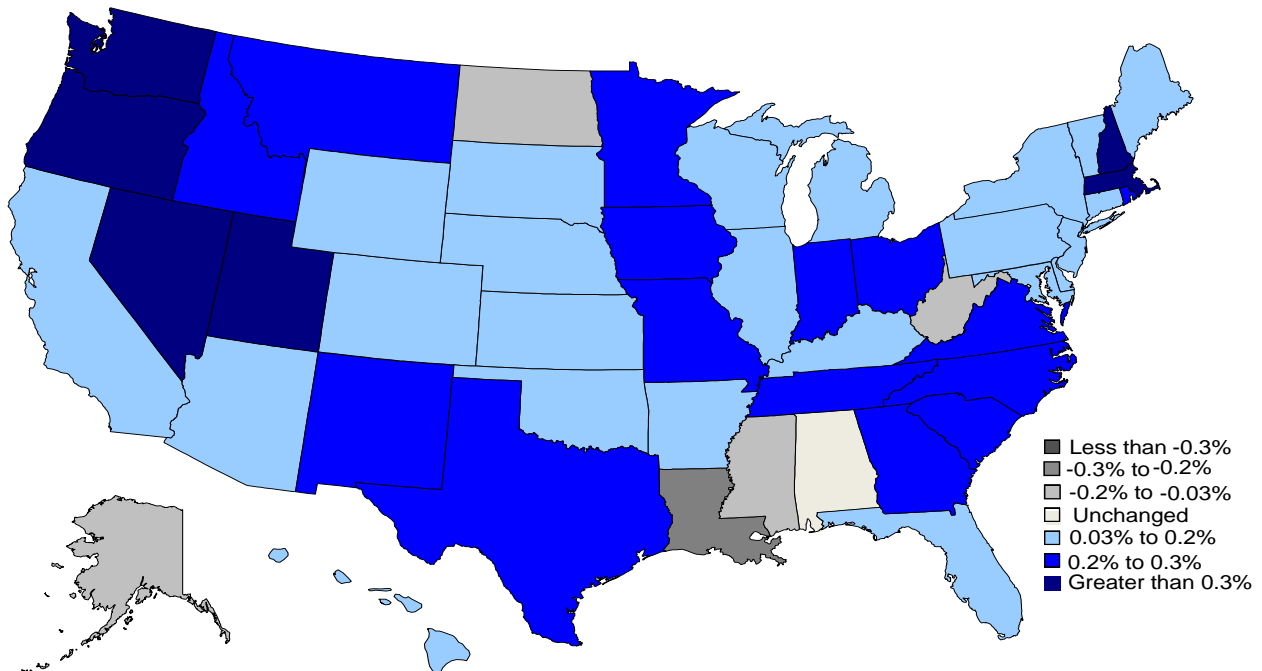# State Monthly Activity Indexes

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Nothing certain but uncertainty in 1Q17

- **In December, activity increased in 44 states, with strongest gains in the West**

- **Activity decelerated in the Sunbelt, despite pickups in the manufacturing, mining, and retail trade sectors**

- **Despite a strong dollar and weak exports, manufacturing activity to benefit from improved domestic demand**

- **Further gains in construction activity will aid the recovery of states such as California and Arizona**

- **Greatest activity declines were seen in Alaska, Louisiana, and North Dakota; downside risk for these states will continue to depend on the path of oil prices**

Chart 1
Activity Indexes, December 2016, 1-Month % Change

Legend:
- Less than -0.3%
- -0.3% to -0.2%
- -0.2% to -0.03%
- Unchanged
- 0.03% to 0.2%
- 0.2% to 0.3%
- Greater than 0.3%

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.

Chart 2
Across the U.S., Selected Indexes

December 2016		Avg. Annualized Growth Rate (%)			2017 BBVA Forecasts			Activity Rank
State	Index	3 Mo.	6 Mo.	12 Mo.	Housing	Employment	GDP	3 mma
Alabama	142	1.4	1.5	1.6	2.2	0.7	1.4	40
Arizona	168	1.9	1.8	2.5	6.0	0.9	1.7	32
California	189	3.4	3.8	4.1	3.5	1.4	3.3	11
Colorado	189	3.2	3.7	3.5	5.6	1.2	2.4	13
Florida	162	3.1	3.7	3.8	7.2	2.0	3.8	15
New Mexico	155	2.5	0.2	0.5	0.4	0.9	0.9	22
North Dakota	271	1.4	0.5	-3.5	1.9	-0.4	1.2	42
Oregon	225	7.5	6.0	6.7	7.7	1.8	2.6	1
Texas	219	3.8	3.7	3.1	0.4	1.3	2.2	7
US	161	2.7	2.7	2.6	5.0	1.5	2.3	
Sunbelt	189	2.9	3.8	5.0	3.9	1.4	2.8	
Ex. Sunbelt	151	2.3	2.1	2.2	3.8	0.8	1.5	

Source: BBVA Research

Bottom Line

In December, activity increased in the majority of states. Oregon had the greatest activity gains once again, topping the list for nine months in 2016. Oregon's status as "most improved" could be attributed to the state's volatility—partly a result of its reliance on manufacturing. The state's manufacturing industry is relatively diversified however, with focuses on food processing, semiconductors, and aerospace. In line with our expectations, the West Coast saw a significant pick-up in activity and proved to be one of the brightest spots of the economy in 2016. Population inflows played a role in activity gains in this region, with Utah, Nevada, Washington, and Oregon among the top 10 fastest-growing states over the last year.

Throughout the country, activity was above trend in industries such as manufacturing, education and health services, and financial activities. Manufacturing activity rebounded the most and was up in the majority of states. Although exports have been subdued by the strong dollar, the ISM new orders index came in at a two-year high last month, pointing to improved domestic demand in 2017. 2016 was also a strong year for construction activity, with significant gains in the warehouse/distribution and apartment sectors. Despite higher commodity prices, construction-related industries stand to benefit from increased infrastructure spending in the upcoming year. The Sunbelt states should be no exception. Relative to the rest of the nation, the region exhibited strength in manufacturing and mining activity, particularly in Arizona and California, which are leading producers of sand and gravel for the construction industry.

Although oil prices were on the rise following the OPEC deal, downward pressures from the stronger dollar suggest only a moderate increase in oil prices in 2017. Although smaller than the gains in 2016, this is welcome news for states weighed down by the slump in oil, such as Louisiana, Alaska, and North Dakota, which experienced the greatest declines in MoM activity in December. However, for states like Texas, which weathered the slump in investment in 2016, 2017 is poised to be a bounce-back year. For large states that benefited from the tailwinds from low oil prices, such as California and Florida, there remains significant capacity for continued growth, which underlies our forecasts of 3.3% and 3.8%, respectively, for these states. Overall, we expect the Sunbelt region to grow 2.8% in 2017.