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**Nathaniel Karp**  
Chief U.S. Economist

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*“The Opportunity of the U.S.  
Sunbelt”*

**BBVA** making the difference



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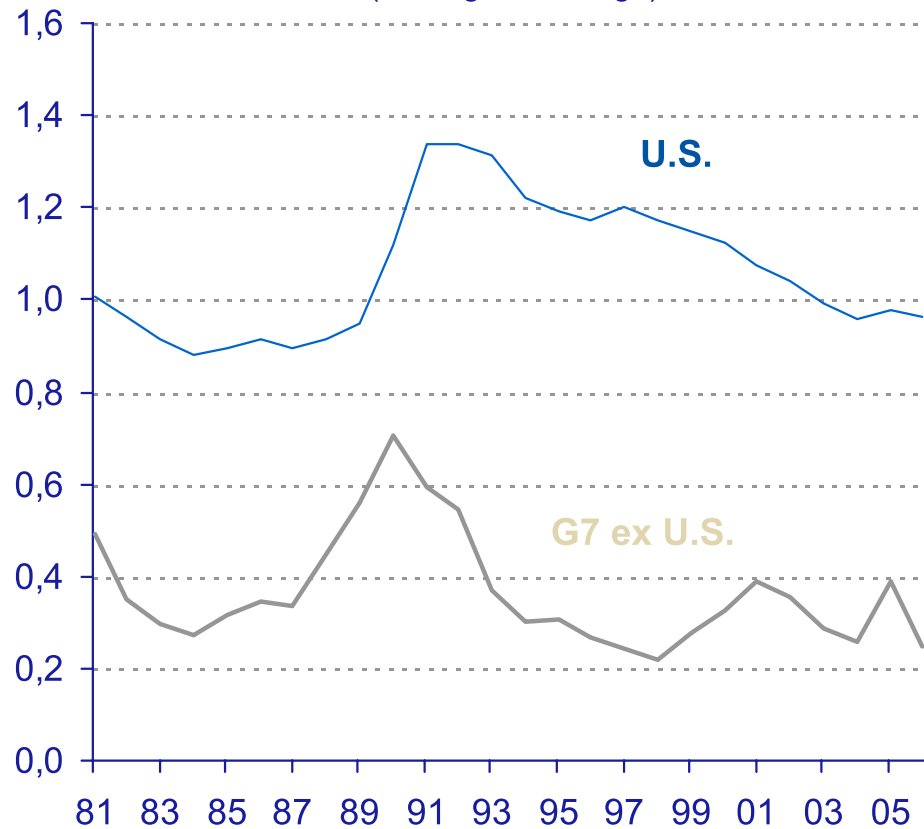
- ▶ Structural View of Sunbelt
- ▶ A Detailed Analysis of the Region
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# U.S.: Solid demographics and a magnet for world talent

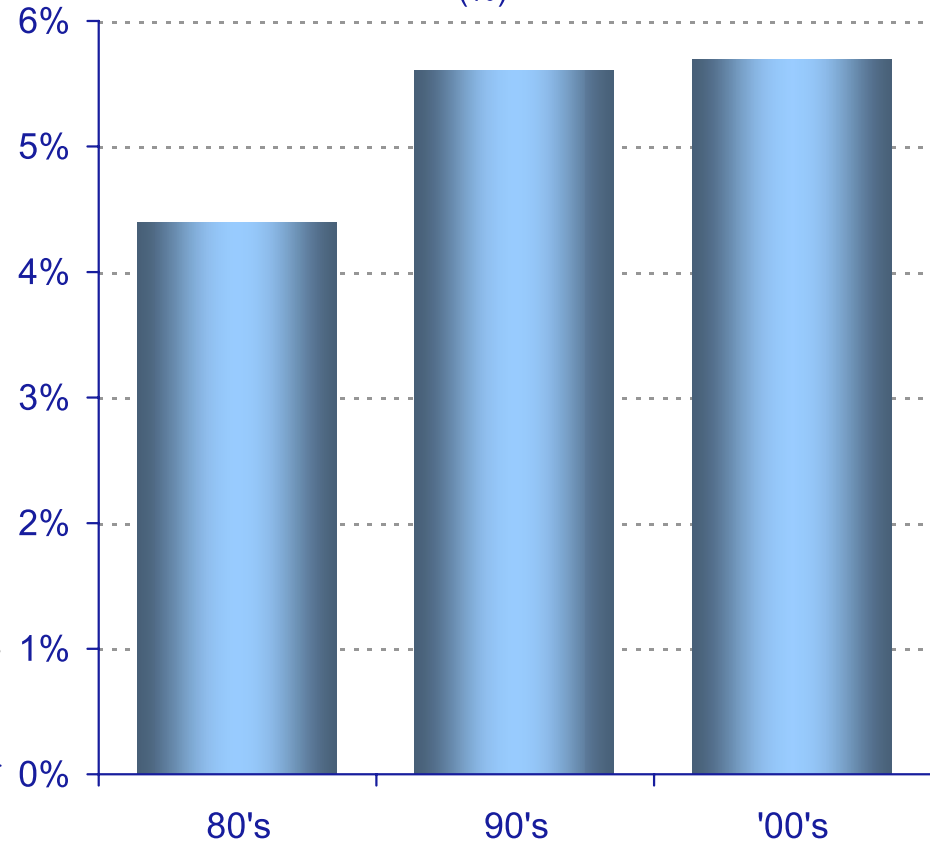
U.S. population grows at 1% p.a., a rate twice as large as other industrialized countries

Population growth  
(Average % change)



Source: IMF

U.S. Immigrants as share of total population  
(%)

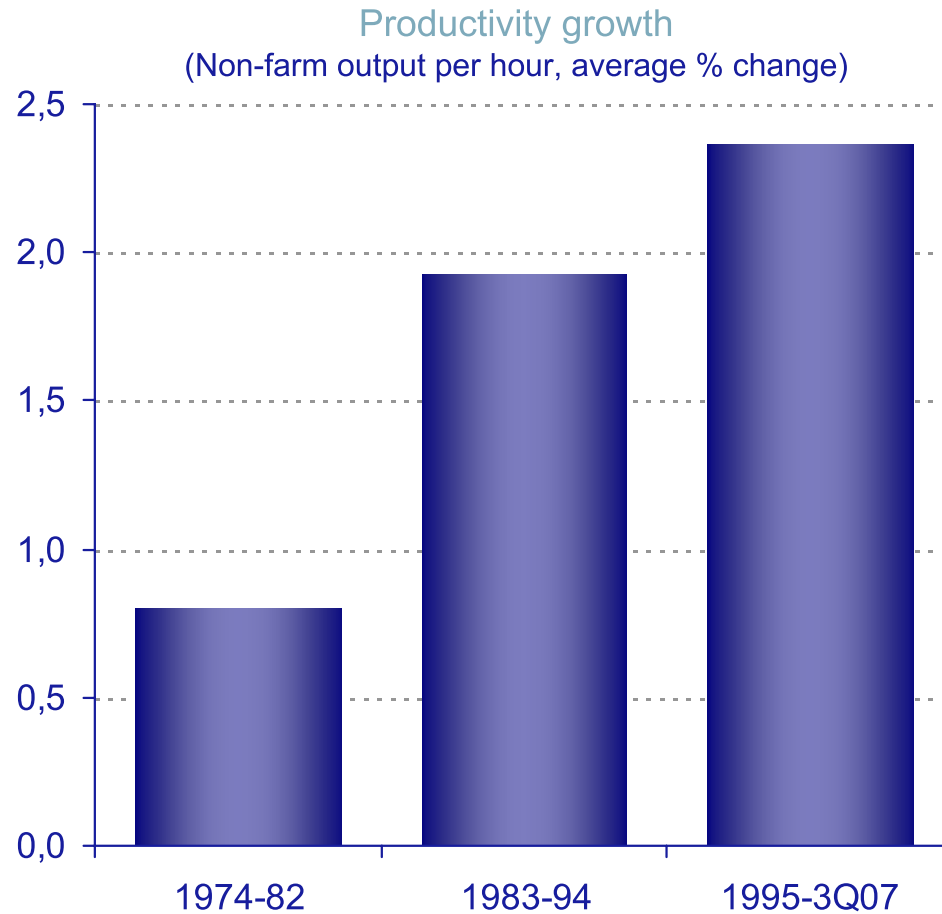


Source: Census



# U.S.: Ranks first in global competitiveness

U.S. Economy: productive, flexible, innovative and business friendly



Source: BLS

## 2007 World Rankings U.S.

Global competitiveness index <sup>1</sup>	1
Efficiency enhancers	1
Innovation and sophistication	4
Business Competitiveness Index <sup>1</sup>	1
Ease of doing business <sup>2</sup>	3
Starting a business	4
Employing workers	1
Getting credit	7
Protecting investors	5
Enforcing contracts	8

1: The Global Competitiveness Report 2007-2008 WEF; 2: Doing Business 2008, World Bank

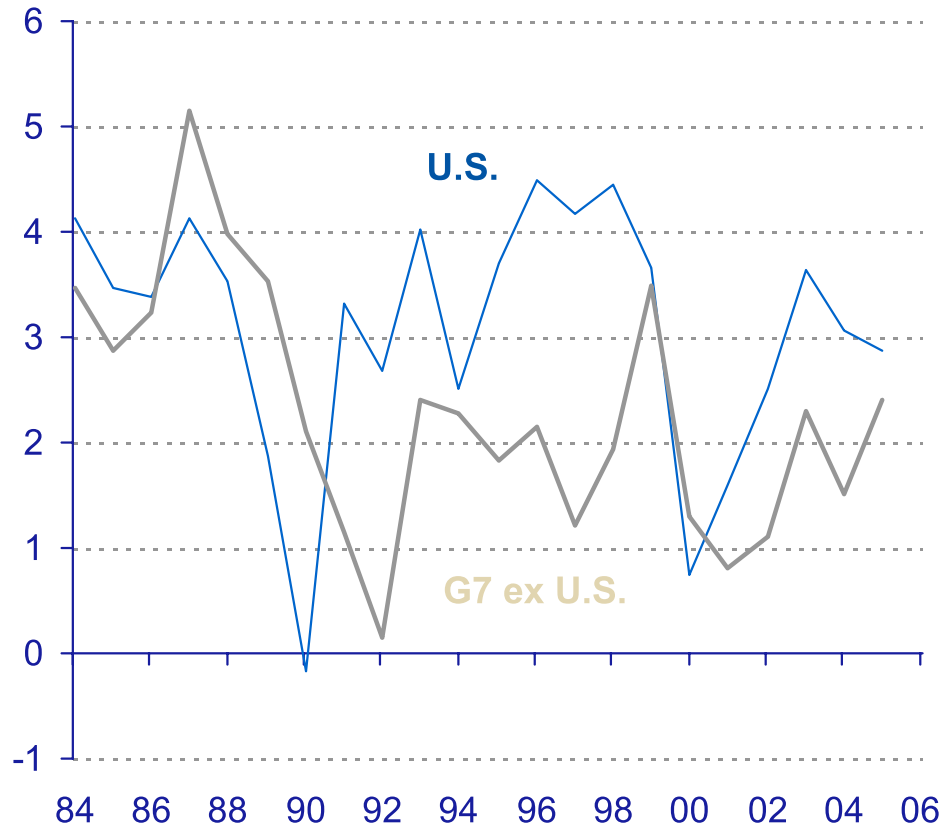




# U.S.: Strong long-term economic perspectives

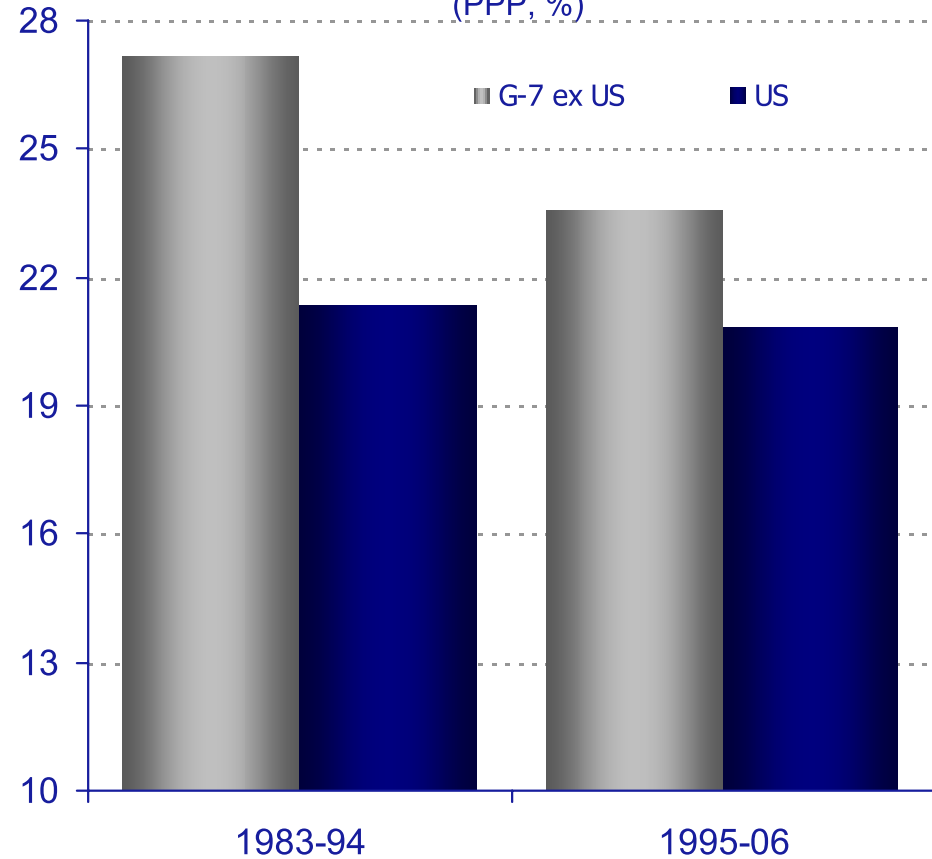
## U.S. economic performance: outgrowing its peers

Real GDP growth  
(Average % change)



Source: IMF

GDP share of world total  
(PPP, %)

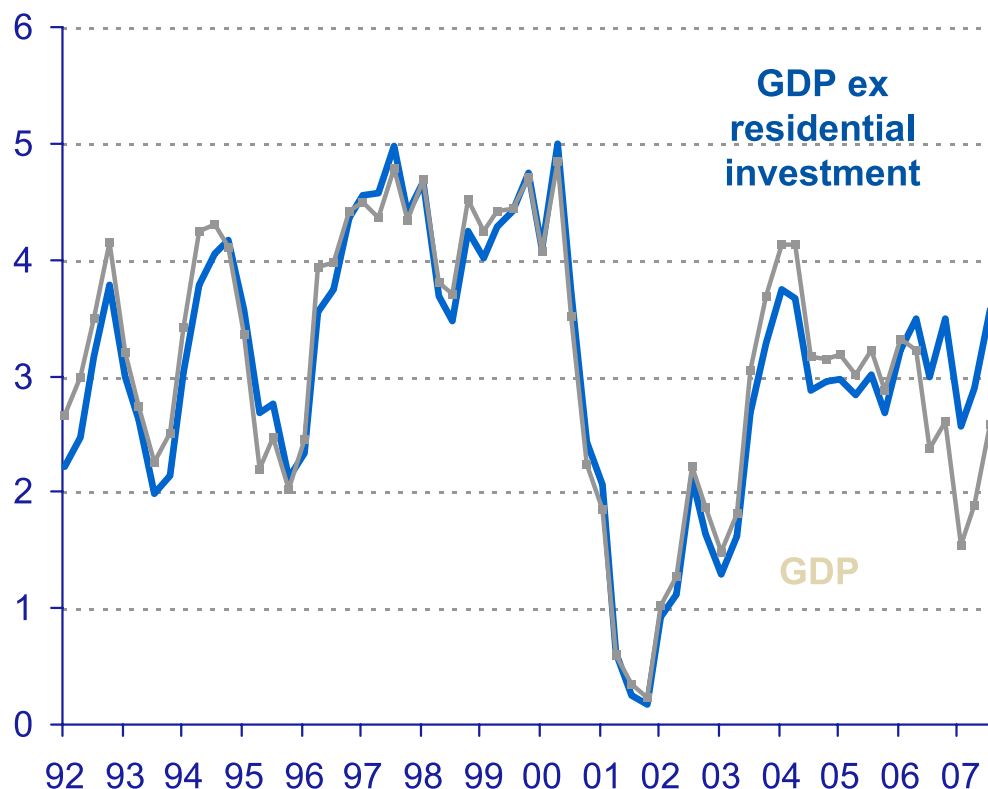




# U.S.: Moderate economic growth in the short-term

U.S.: Limited impact on long-term growth from the housing correction

Real GDP growth  
(4 quarter % change)



Source: BEA

Real GDP growth  
(Average, 4-qtr % change)

	4Q06-3Q07	2004-3Q06	1996-03
GDP	2.2	3.3	3.2
GDP ex residential investment	3.1	3.1	3.1

- Solid real disposable income gains
- Firm job creation
- Strong business balance sheets
- Vibrant external demand
- Stable core inflation
- Well-anchored inflation expectations
- Low real interest rates

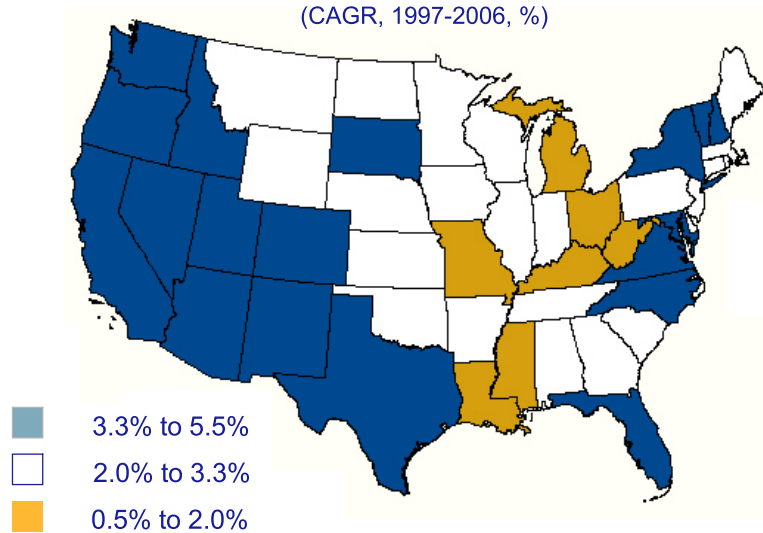




# The Sunbelt outperforms the rest of the U.S.

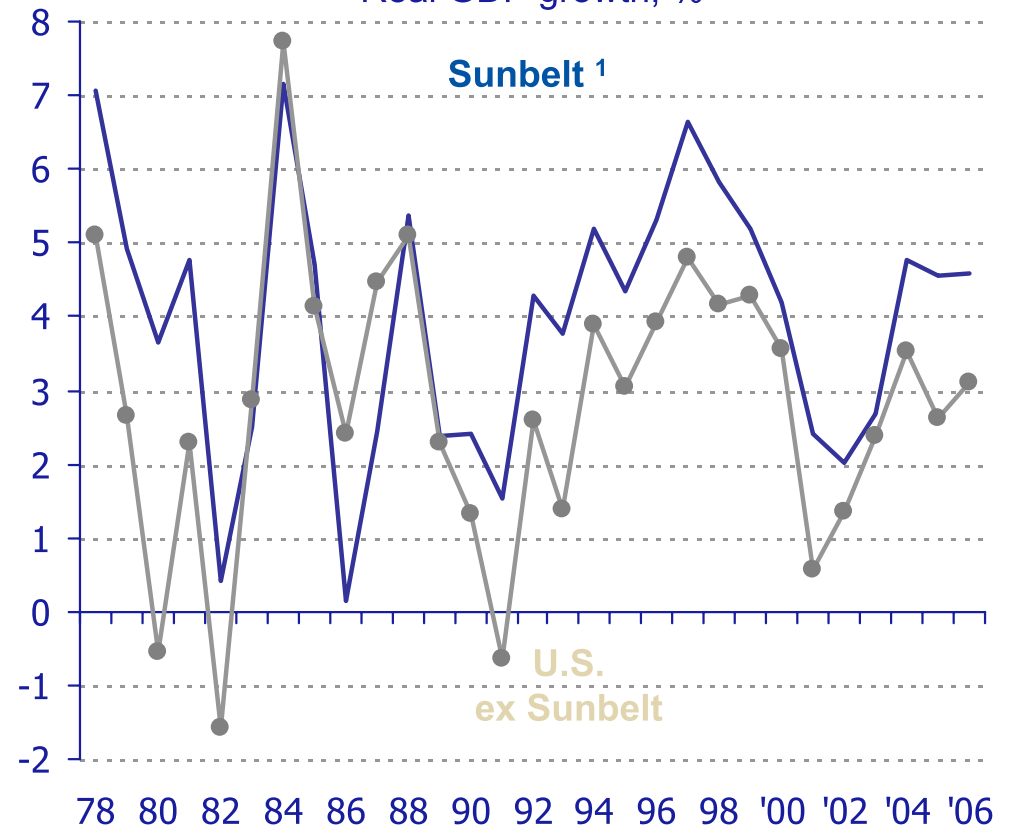
Sunbelt<sup>1</sup>: for the past 28 years, growing faster

Real GDP growth  
(CAGR, 1997-2006, %)



1978-2006	Sunbelt <sup>1</sup>	U.S. ex Sunbelt
Real GDP growth (CAGR, %)	<b>4.0</b>	2.9
Standard deviation	<b>1.8</b>	1.9
Years with negative growth	<b>0</b>	3
Ratio to U.S. average	<b>1.3</b>	0.9

Real GDP growth, %



Source: BEA

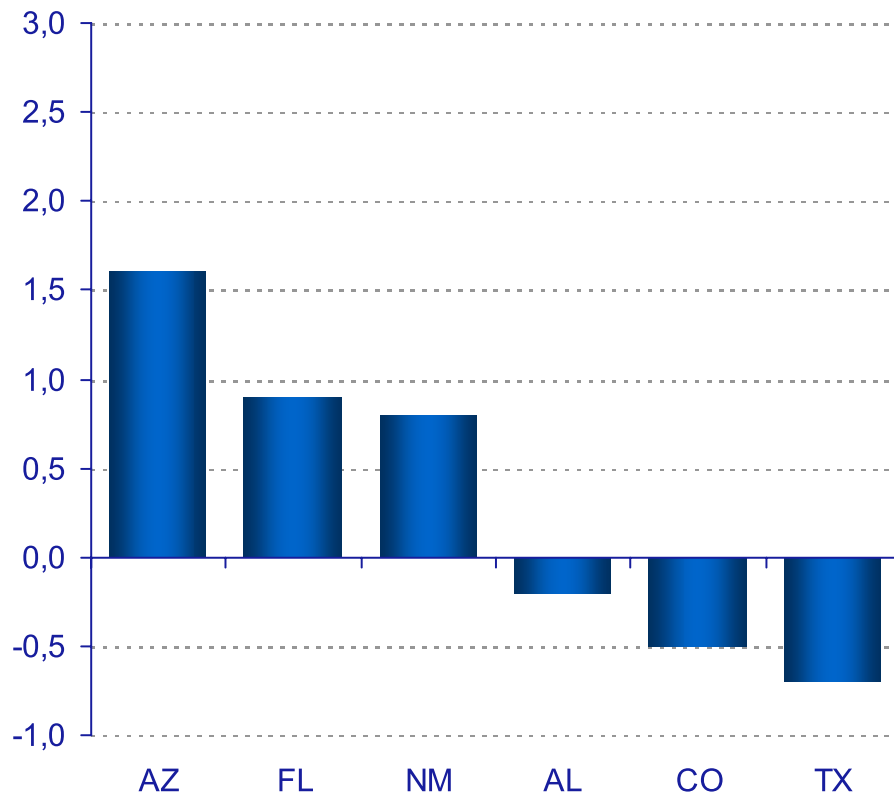
<sup>1</sup>All references to Sunbelt in this presentation refer to: Alabama, Arizona, Colorado, Florida, New Mexico & Texas



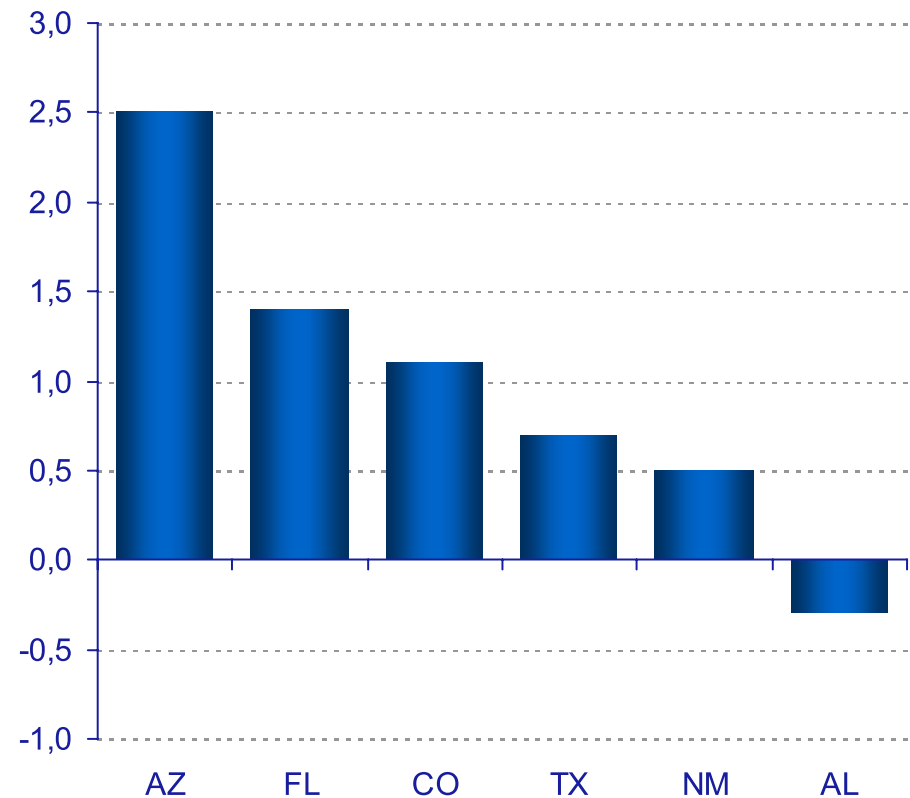
# The Sunbelt captures a greater share of productivity advances

An accelerating process since the second half of the 90's

Difference with U.S. real GDP growth 1983-1994  
(Average Annual Rate, %)



Difference with U.S. real GDP growth 1995-2006  
(Average Annual Rate, %)



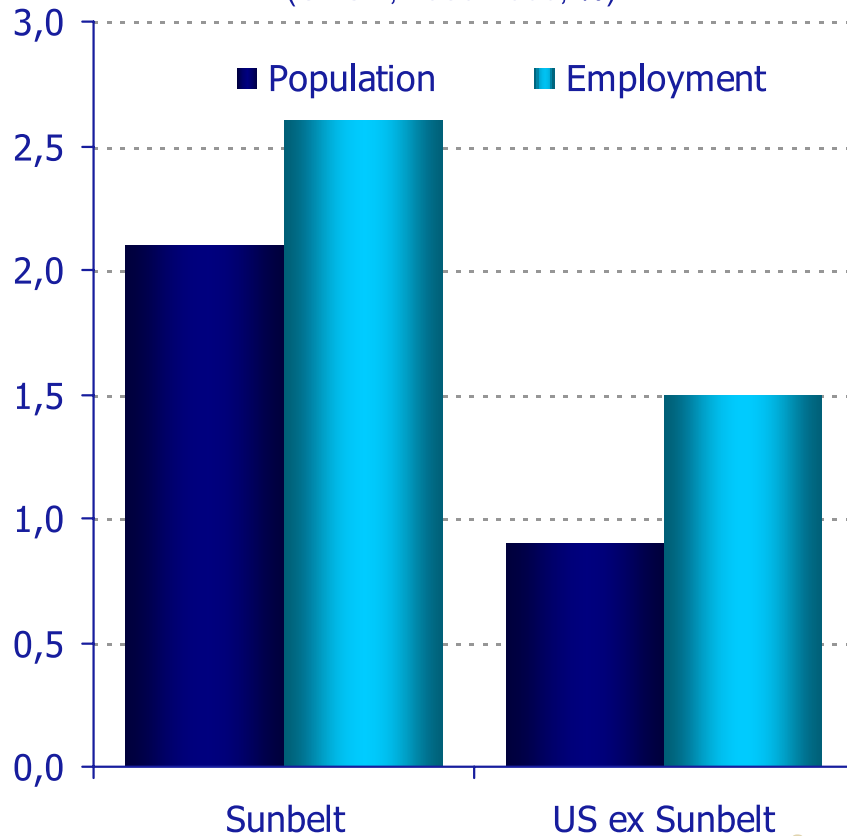
Source: BEA



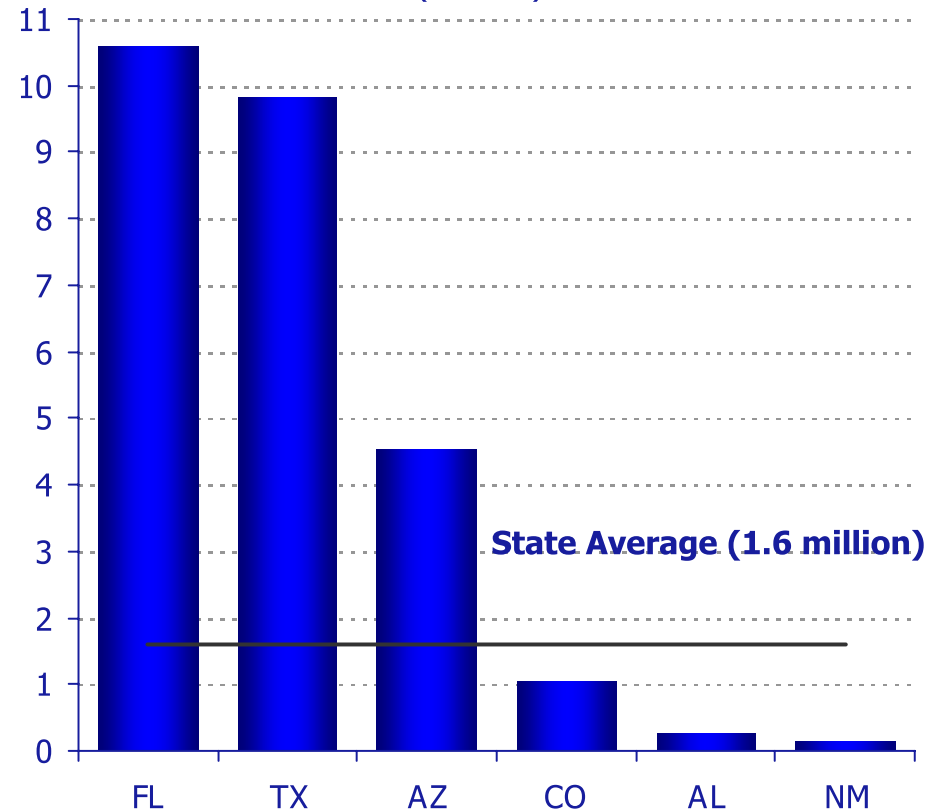
# Sunbelt: Outstanding demographics

Higher population & employment growth for almost three decades

Population & employment growth  
(CAGR, 1980-2006, %)



Projected population growth 2006-2030  
(Millions)



Source: BLS & Census



# Sunbelt: Business friendly and flexible markets

Favorable tax and business environment result in greater competitiveness

	Economic Freedom Index	Best to worst legal systems	Business Tax Climate Index	State and local spending per capita*	Cost of Doing Business Index	Competitiveness index	Growth prospects
Alabama	<b>25</b>	48	<b>25</b>	<b>21</b>	<b>11</b>	47	40
Arizona	<b>11</b>	<b>19</b>	<b>11</b>	<b>6</b>	26	<b>16</b>	<b>15</b>
Colorado	<b>2</b>	<b>13</b>	<b>14</b>	29	<b>22</b>	<b>4</b>	<b>5</b>
Florida	<b>22</b>	42	<b>22</b>	<b>14</b>	29	27	<b>9</b>
New Mexico	37	38	37	28	31	38	29
Texas	<b>17</b>	44	<b>17</b>	<b>10</b>	<b>24</b>	<b>22</b>	<b>2</b>

Sources: Economic Freedom, Pacific Research Institute; Business Tax Climate, Tax Foundation; Legal System, USCC; Spending per capita, Public Policy Institute  
 \* 1 is the lowest and 50 is the highest. Cost of doing business, Pacific Research Institute; Competitiveness Index & Employment, Public Policy Institute; Growth Prospects, Forbes. Various years.

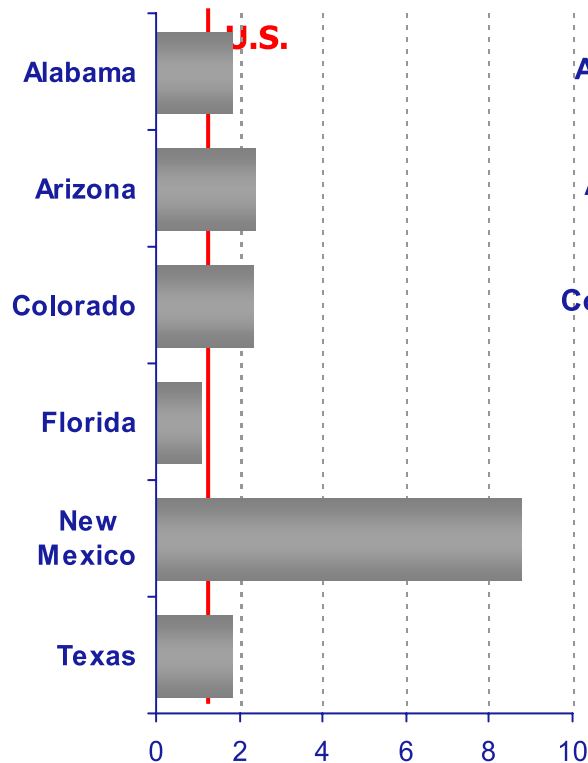


# Sunbelt: Research and development is strong

Solid fundamentals support high and stable economic growth

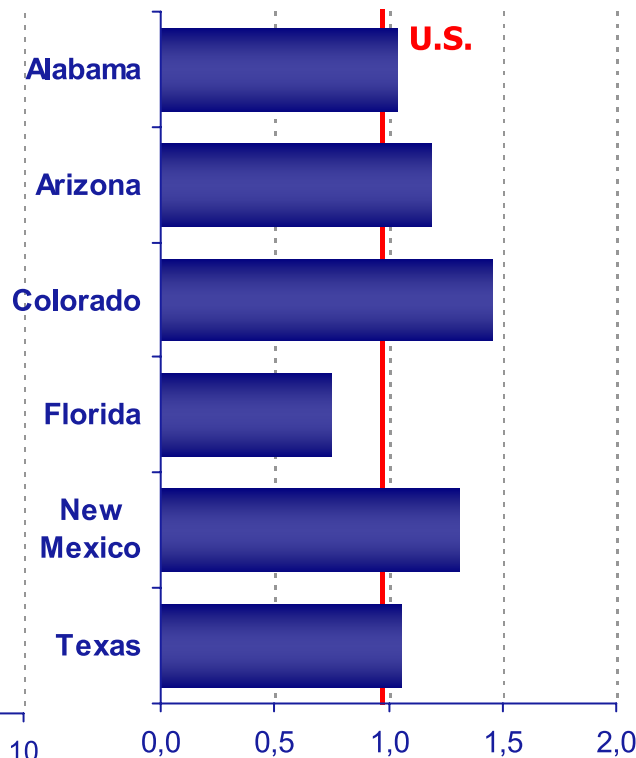
R&D as share of State GDP

(2002)



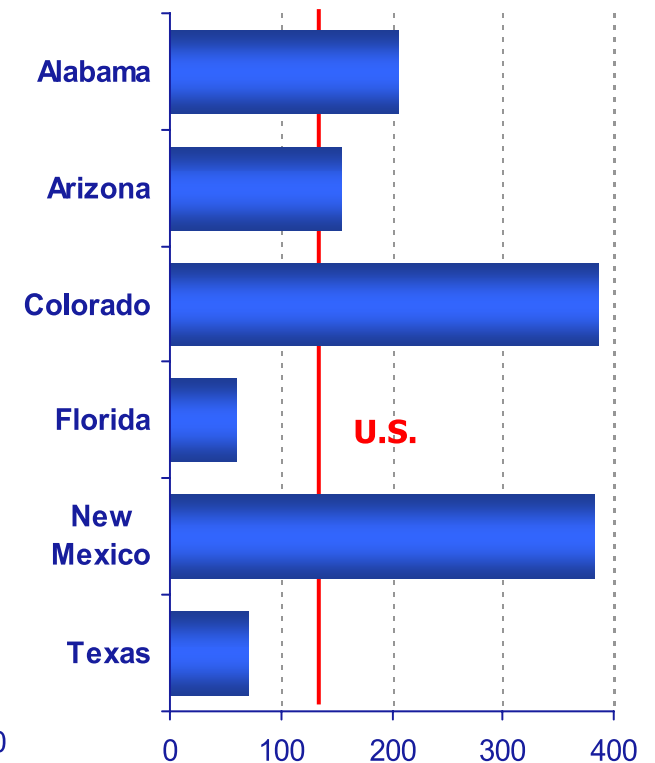
Engineers as share of workforce

(2003)



Average SBIR program award

dollars per \$1 million of GDP (2001-03)

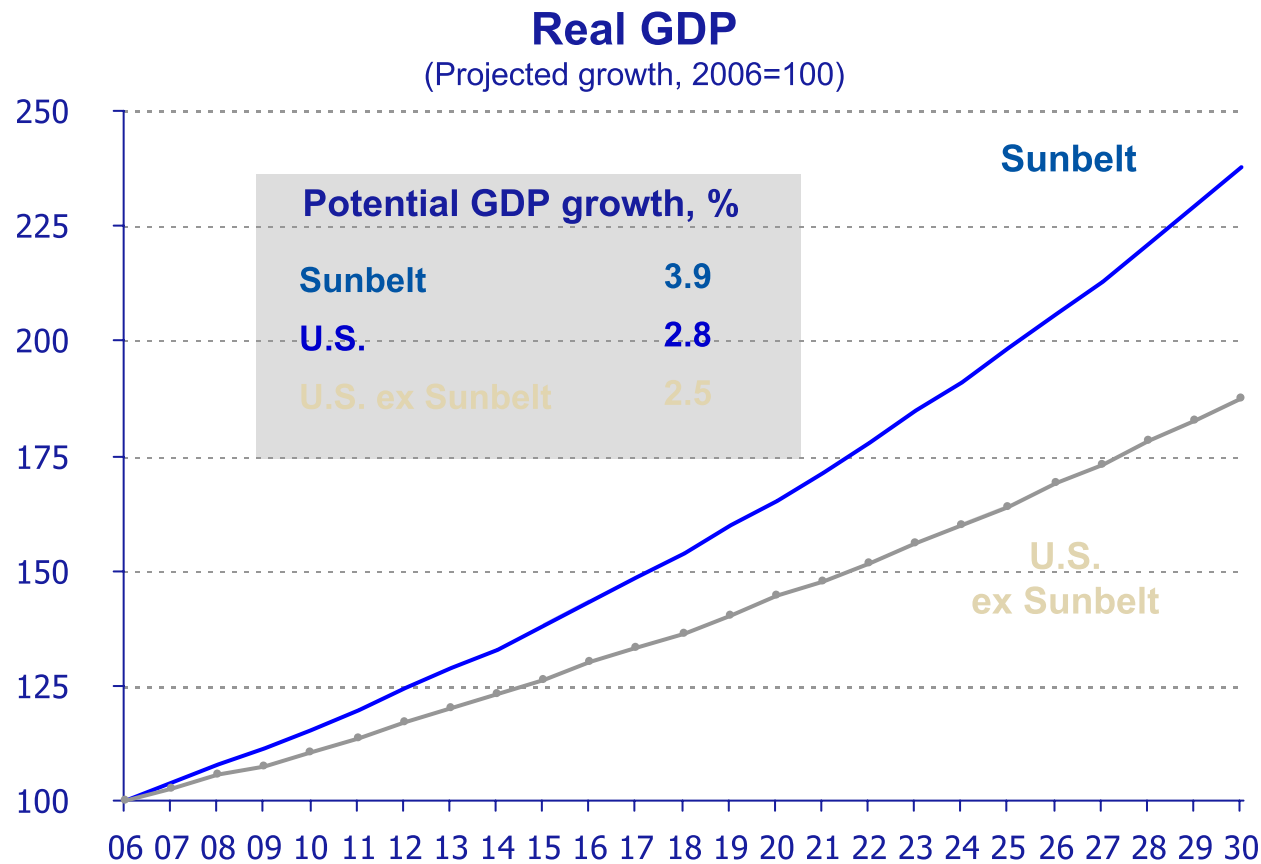


Source: NSF

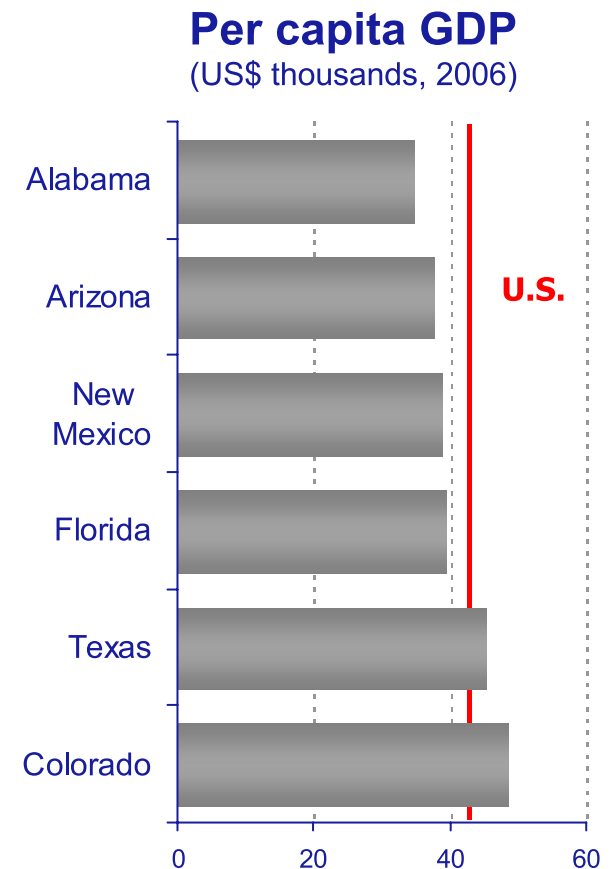


# Sunbelt: Higher economic growth potential

Sunbelt exhibits faster potential growth



Source: BBVA USA Economic Research Department



Source: BEA





# Sunbelt: Higher economic growth potential

In the next decades, the region will grow almost U.S.\$3.5 trillion

GDP growth 2006-2030*					
	Ranking	Growth in \$U.S. (Billions)	Contribution (%)	2006 GDP % Share	2030 GDP % Share
U.S.		12,821	100.0	100.0	100.0
Texas	2	1,428	11.2	8.1	9.6
Florida	3	1,118	8.8	5.4	7.1
Arizona	7	441.3	3.5	1.8	2.6
Colorado	17	239.9	1.9	1.8	1.8
Alabama	29	117.4	0.9	1.2	1.1
New Mexico	36	61.0	0.5	0.6	0.5
Sunbelt		3,406	26.8	18.9	22.7
U.S. ex Sunbelt		9,415	73.2	81.1	77.3

\* Source: BBVA USA Economic Research Department. Productivity growth is assumed to be similar between States. The employment growth rate is assumed to be similar to the population growth rate (albeit lower than in 1980-2006)



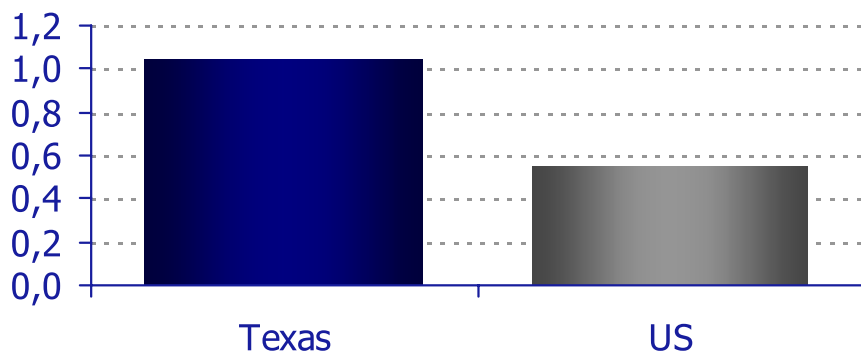
- ▶ Structural View of Sunbelt
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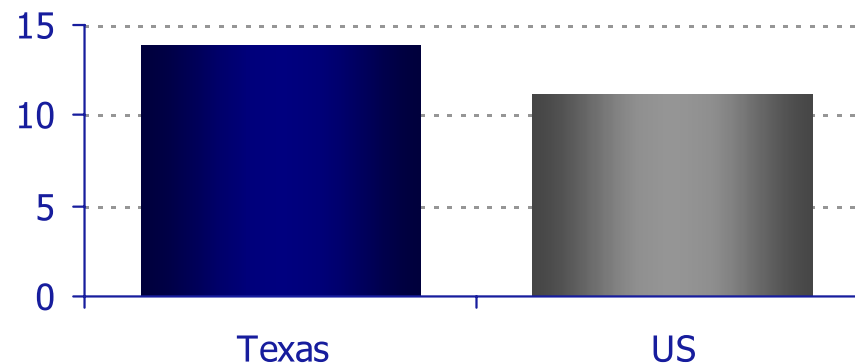
# Texas: The state that leads the pack

Texas exceeds the U.S. average in job creation, scientists and engineers

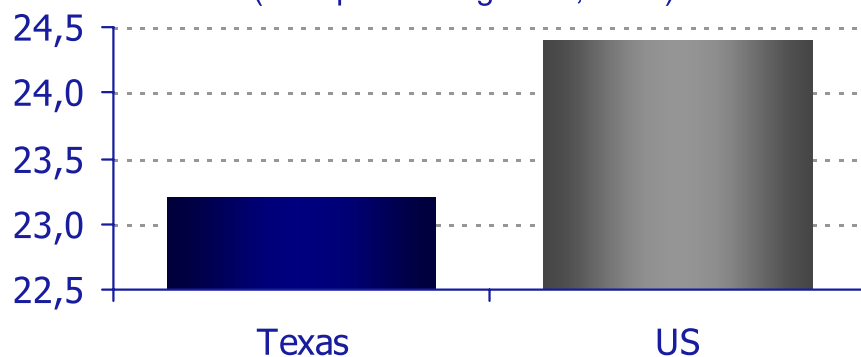
Employment growth  
(2000-2006, %)



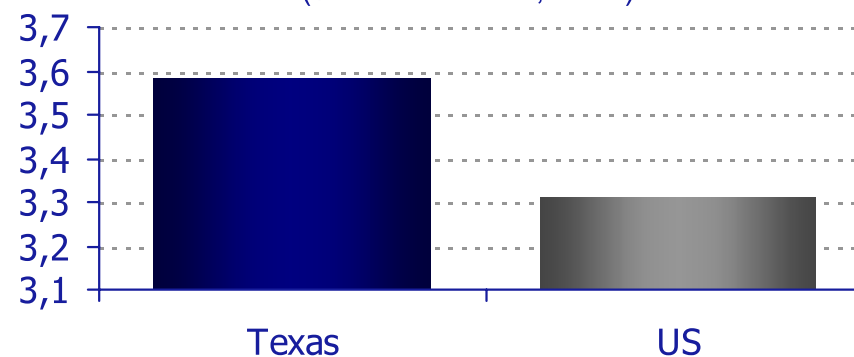
Foreign born persons  
(%, 2000)



Bachelor's degree or higher  
(% of persons age 25+, 2000)



Scientists & Engineers  
(% of labor force, 2005)



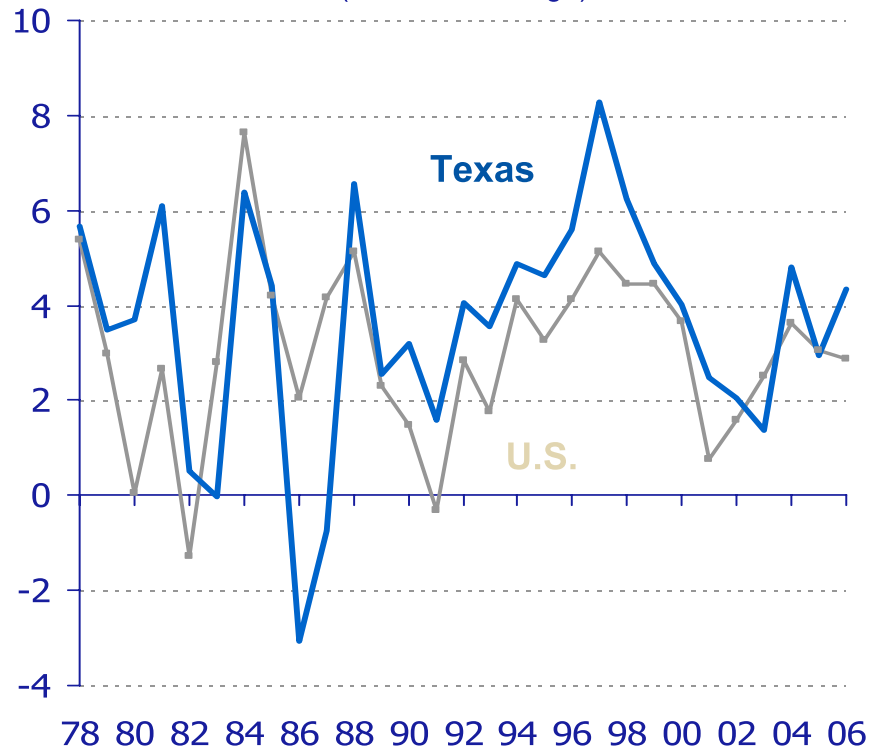
Source: BEA, Census, NSF



# Texas: The state that leads the pack

## Texas economy is well diversified

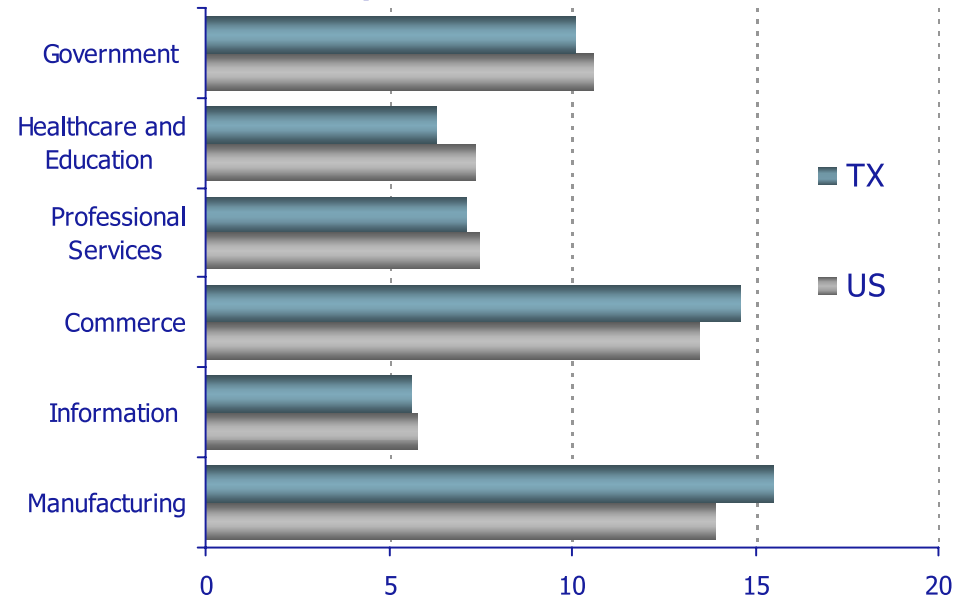
Real GDP growth  
(Annual % change)



Source: BEA, Census, Wisertrade

	U.S.	TX
<b>GDP</b> (\$U.S. billions, 2006)	13,195	1,066
<b>State Exports / GDP (%)</b>	7.9	14.2
<b>Projected population growth (2006-30)</b>	0.8	1.5
<b>Median Family Income (2006, \$U.S.)</b>	65,093	54,554

GDP Composition (% , selected industries)





# Texas: The state that leads the pack

Texas is home to a greater share of small- and medium-sized firms

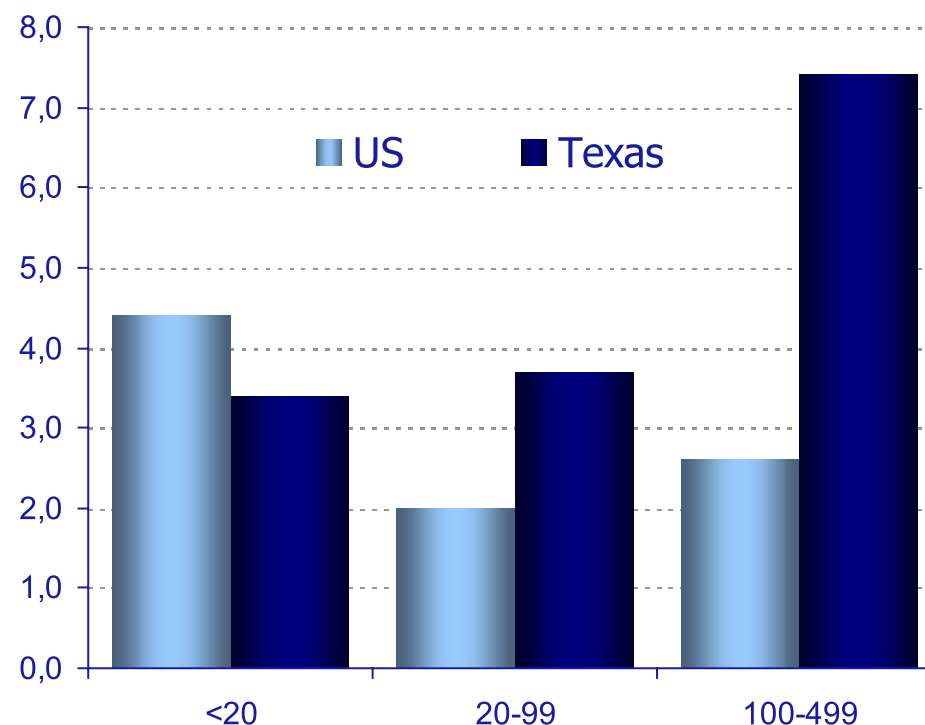
## Leads the nation in:

- Overall Energy Production
- Oil and Gas Production
- Refining Capacity
- Wind Power Generation – home to the largest facility in the world

Reserves	U.S. Share
Crude Oil	22.6%
Dry Natural Gas	27.6%
Natural Gas Liquids	37.7%
Rotary Rigs & Wells	
Rotary Rigs in Operation	45.2%
Crude Oil Wells	28.8%
Natural Gas Wells	17.6%
Production	
Crude Oil	20.8%
Natural Gas	27.7%

Source: EIA

Percent increase in small- & medium-sized firms  
(By employment size, % change 2000-2004)



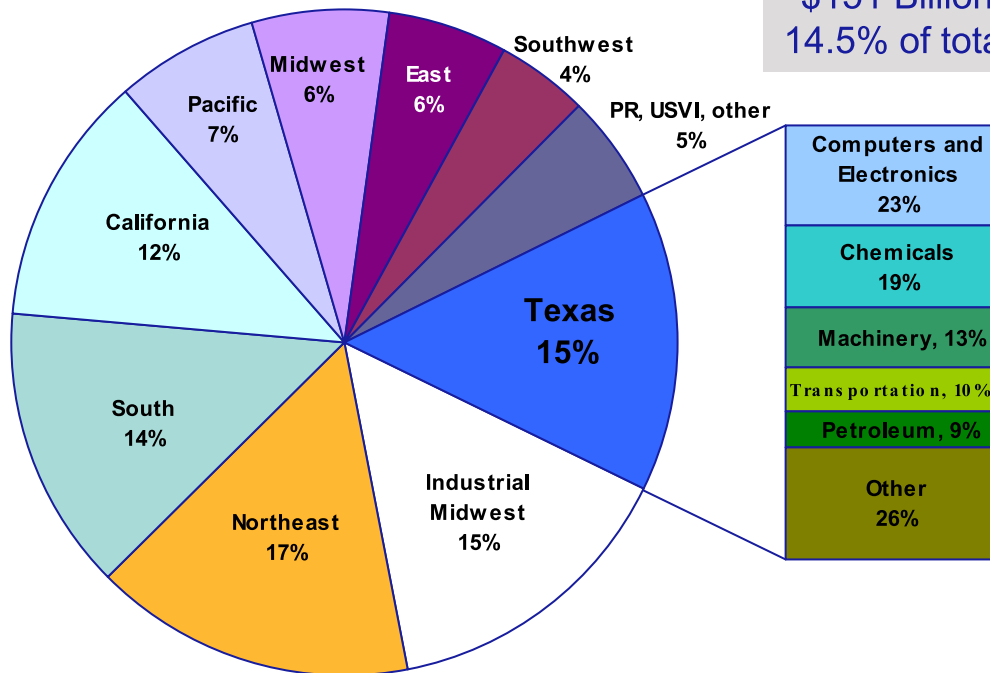
Source: Census



# Texas: The state that leads the pack

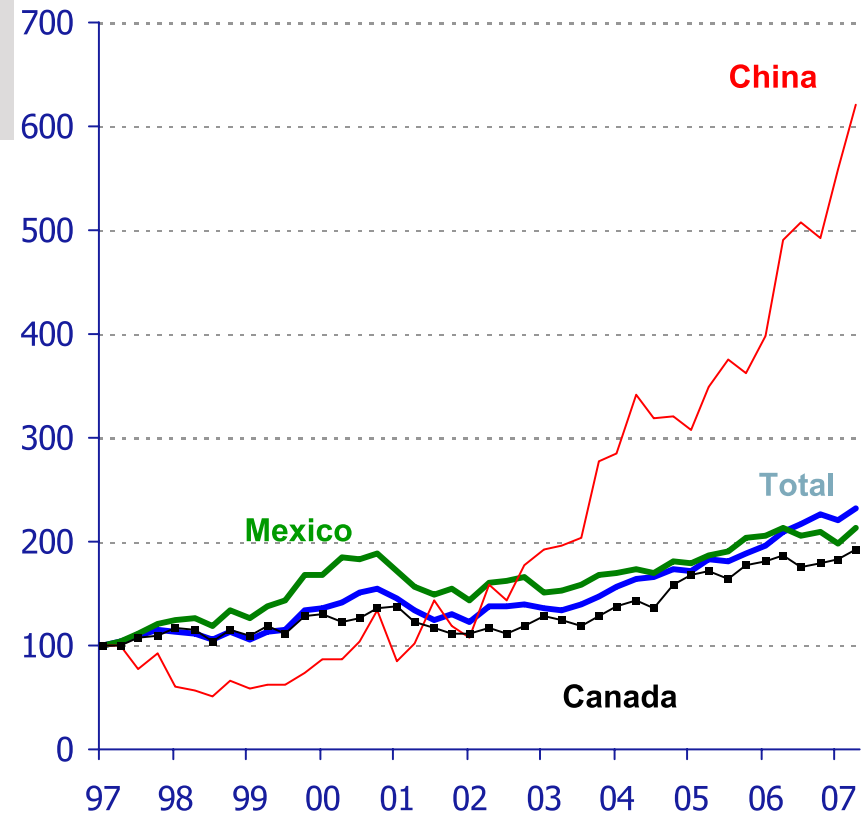
Texas first in total exports, and second in high-tech exports

**Foreign Exports by Region**  
(2006, %)



Texas' Share:  
\$151 Billion  
14.5% of total

**Texas Exports**  
(1Q97=100)



Source: WiserTrade

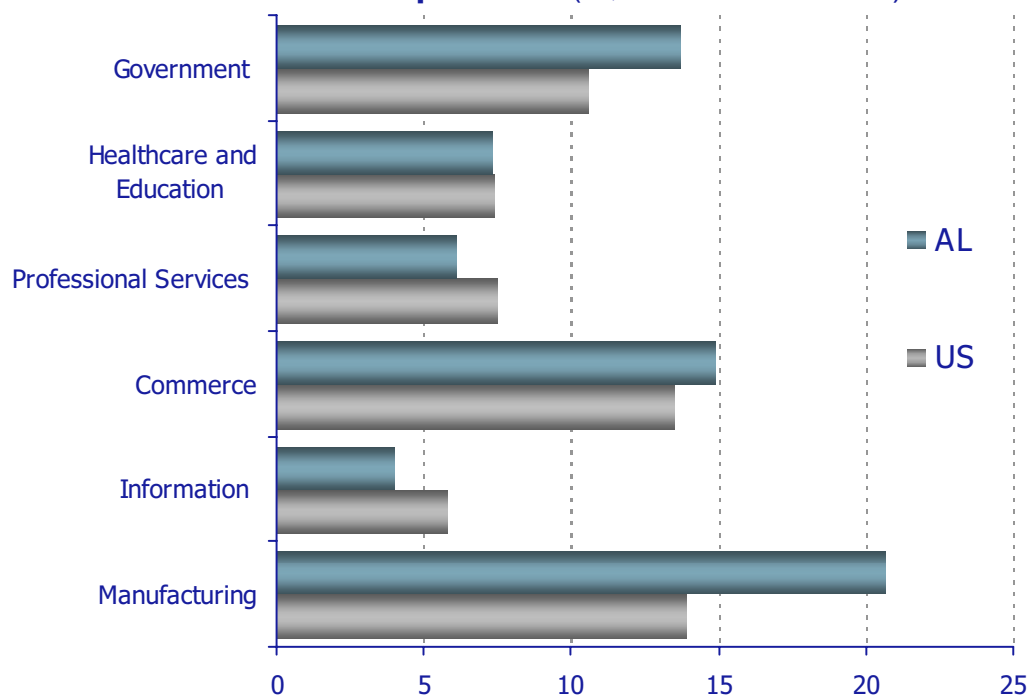




# Alabama: Catching up since 2002

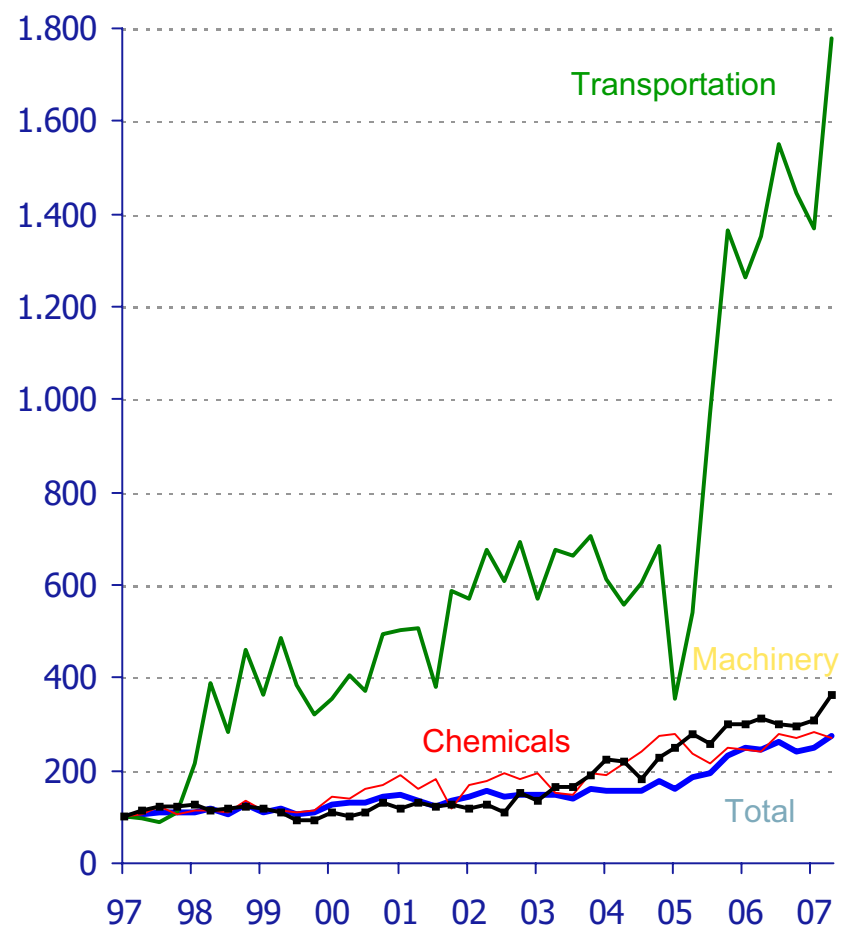
	U.S.	AL
<b>GDP</b> (\$U.S. billions, 2006)	<b>13,195</b>	<b>161</b>
<b>State Exports / GDP</b> (%)	<b>7.9</b>	<b>8.6</b>
<b>Population growth</b> (rate 2006-2030)	<b>0.8</b>	<b>0.2</b>
<b>Median Family Income</b> (2006, \$U.S.)	<b>65,093</b>	<b>55,448</b>

**GDP Composition** (% , selected industries)



Source: BEA, Census, Wisetrade

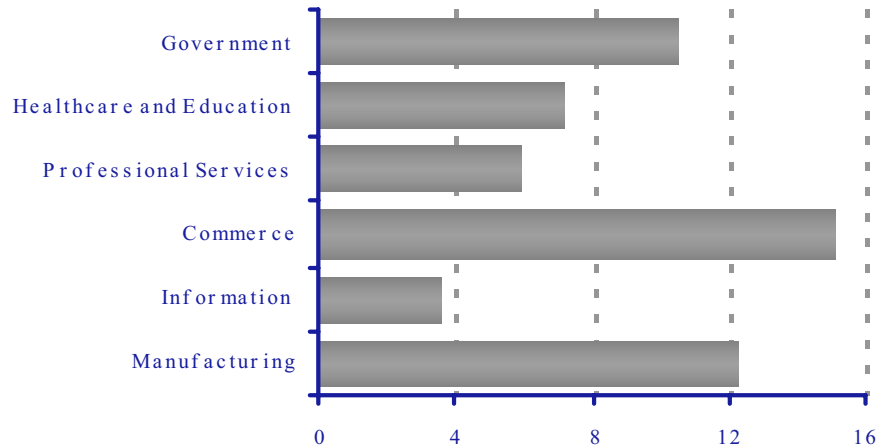
**Alabama Exports**  
(1Q97=100)



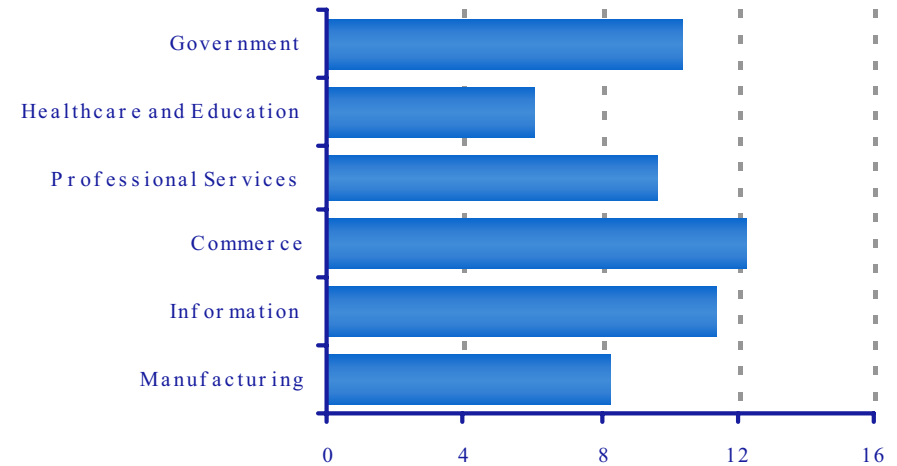


# Sunbelt: Strong competitive advantages

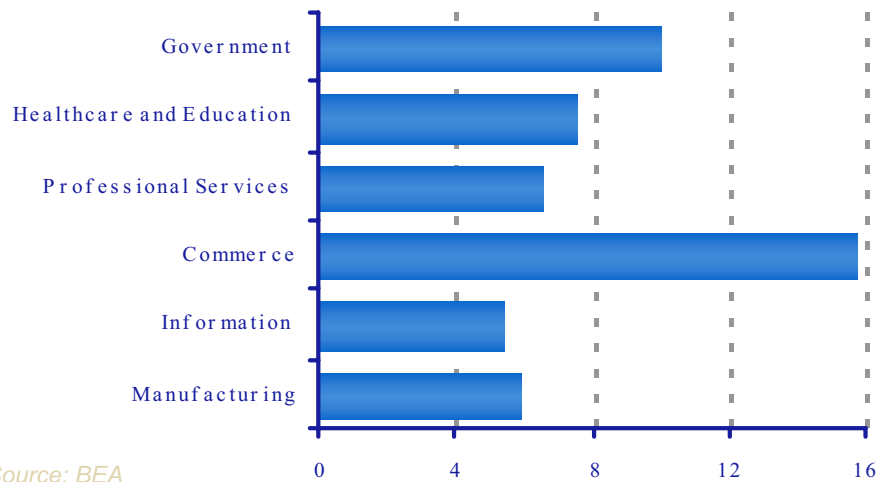
Arizona GDP (% share, selected industries)



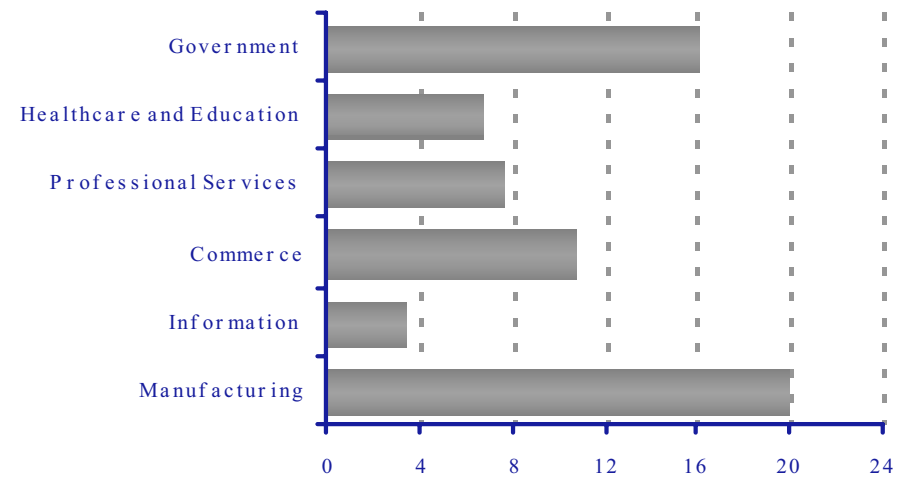
Colorado GDP (% share, selected industries)



Florida GDP (% share, selected industries)



New Mexico GDP (% share, selected industries)

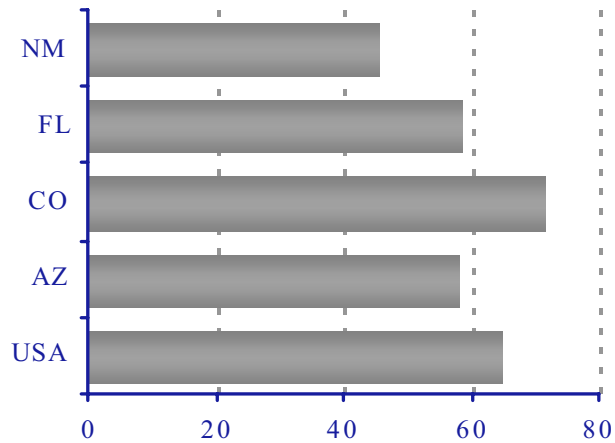


Source: BEA

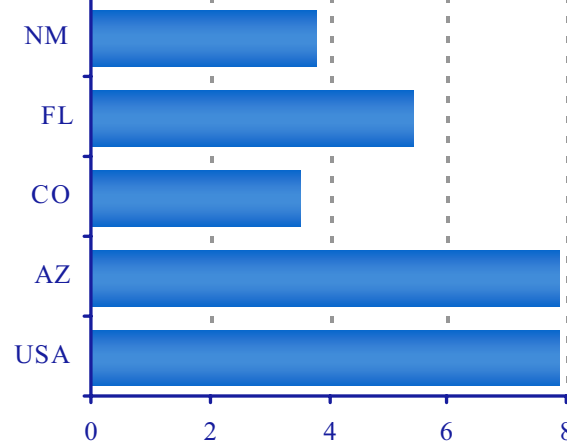


# Sunbelt: Strong competitive advantages

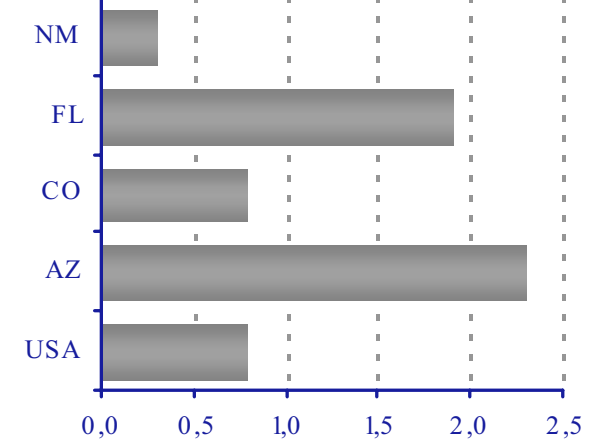
Median family income  
(U.S.\$, thousands)



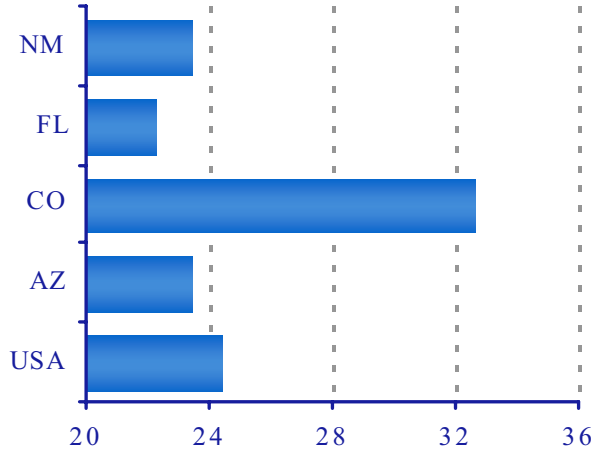
Exports/GDP  
(%)



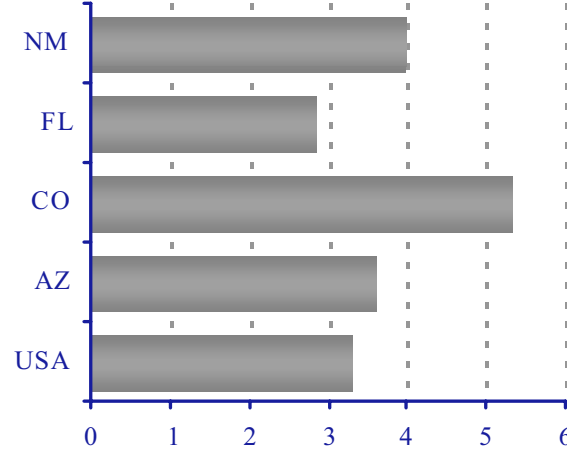
Projected population growth  
(2006-30, %)



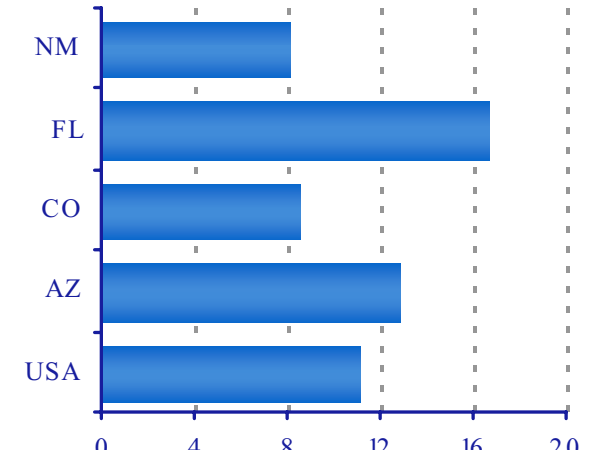
Bachelor's degree  
(% of persons age 25+)



Scientists & engineers  
(% of labor force)



Foreign born population  
(%)



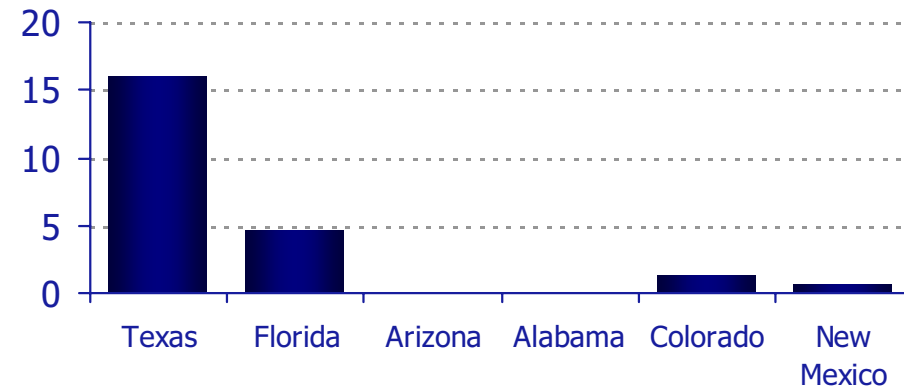


# Sunbelt: Strong competitive advantages

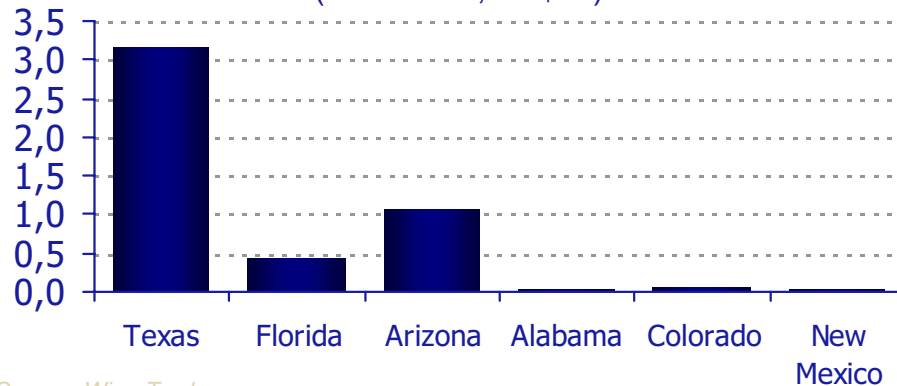
Change in total high-tech exports, 1997-2006

Rank	State	US\$bn	% of total
	<b>All</b>	<b>117.5</b>	<b>100.0</b>
<b>1</b>	<b>TX</b>	<b>25.8</b>	<b>21.9</b>
<b>3</b>	<b>FL</b>	<b>9.0</b>	<b>7.7</b>
<b>6</b>	<b>AL</b>	<b>4.6</b>	<b>3.9</b>
<b>25</b>	<b>CO</b>	<b>1.5</b>	<b>1.3</b>
<b>28</b>	<b>AZ</b>	<b>1.0</b>	<b>0.9</b>
<b>29</b>	<b>NM</b>	<b>0.8</b>	<b>0.7</b>

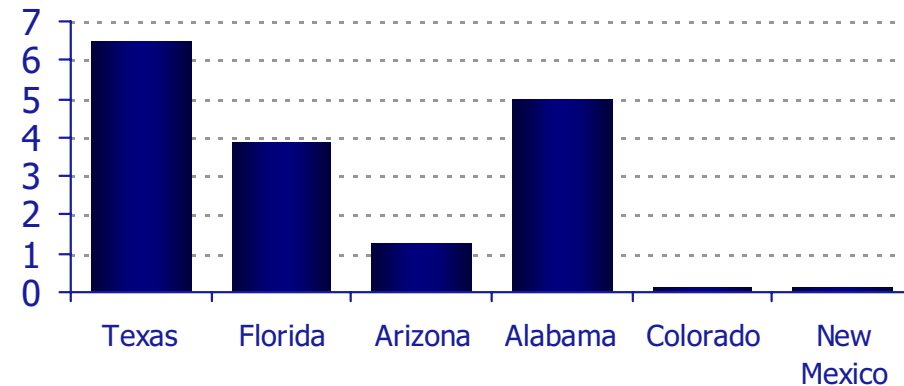
Change in computer & electronic products  
(1997-2006, US\$bn)



Change in electrical equipment & components  
(1997-2006, US\$bn)



Change in transportation equipment  
(1997-2006, US\$bn)



Source: WiserTrade



# Sunbelt: Strong competitive advantages

	Foreign trade	Population Growth	Education	Regulatory Environment	Taxes	Competitiveness	GDP
<b>Texas</b>	✓	✓	✓	✓	✓	✓	✓
<b>Arizona</b>	✓	✓	✓	✓	✓	✓	✓
<b>Colorado</b>	X	✓	✓	✓	✓	✓	✓
<b>New Mexico</b>	✓	X	✓	X	X	X	X
<b>Alabama</b>	✓	X	✓	✓	✓	X	✓
<b>Florida</b>	✓	✓	X	X	✓	X	✓

Source: BBVA USA Economic Research Department



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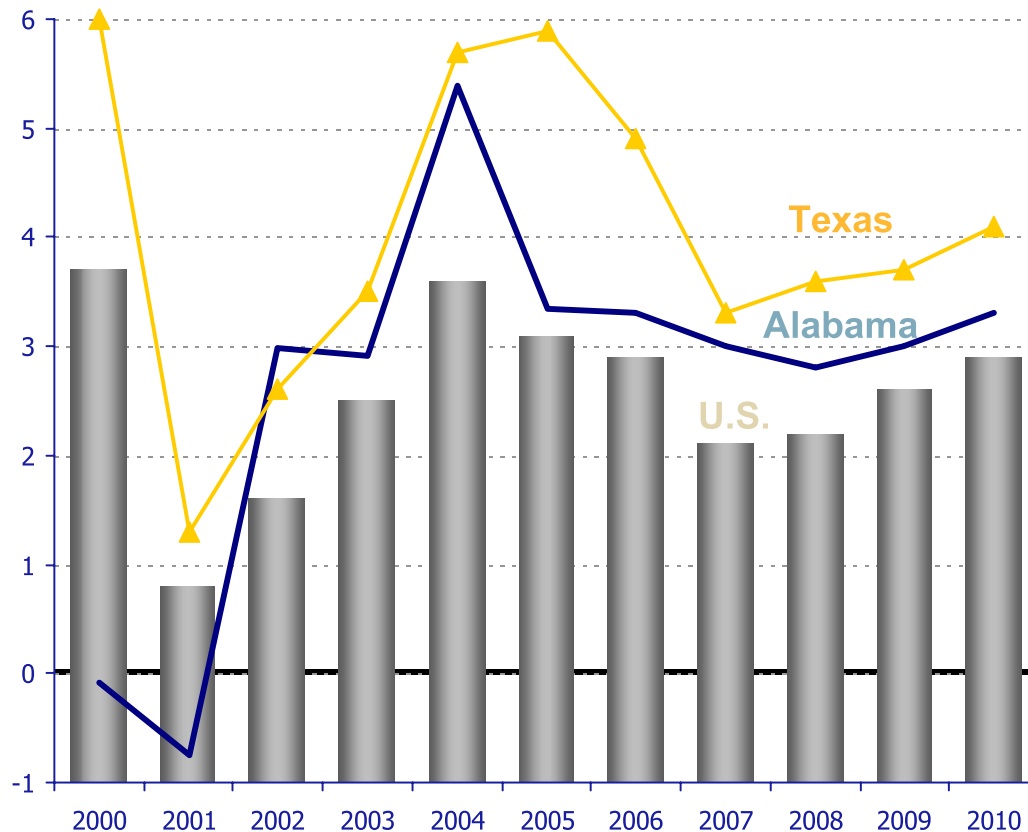




# Sunbelt: Positive outlook

Economic growth in Alabama and Texas will remain above U.S. average

Real GDP Growth: Alabama and Texas  
(Year-over-year % change)



Source: BEA

Texas: GDP growth sustained by steady employment gains, high-tech production, high energy prices, and solid foreign exports

Alabama: an expanding manufacturing sector led by the transportation industry

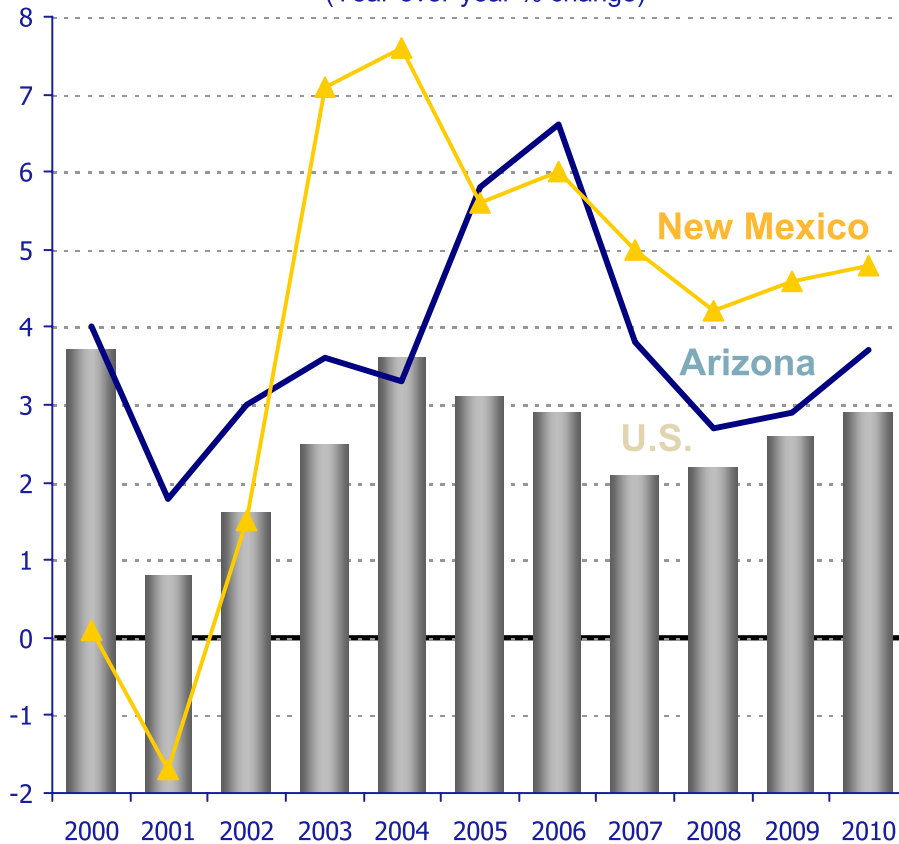
Texas and Alabama: limited impact from the housing downturn



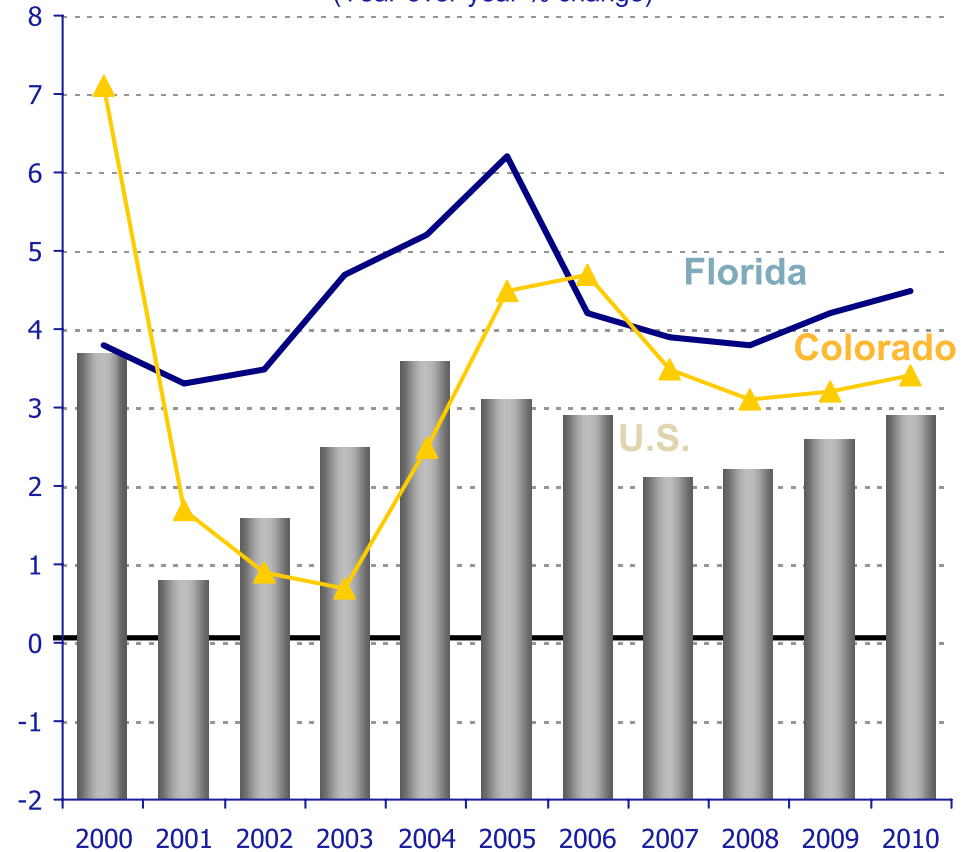
# Sunbelt: Positive outlook

The other Sunbelt states will also grow above the national average

Real GDP Growth: Arizona and New Mexico  
(Year-over-year % change)



Real GDP Growth: Florida and Colorado  
(Year-over-year % change)



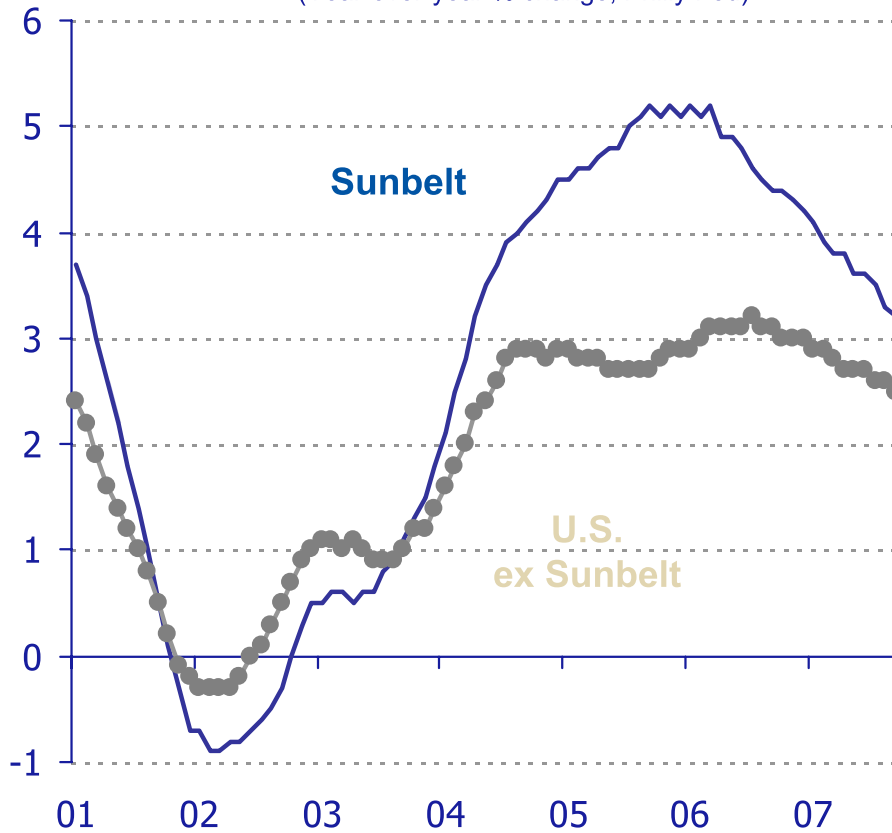
Source: BEA



# Sunbelt: Positive outlook

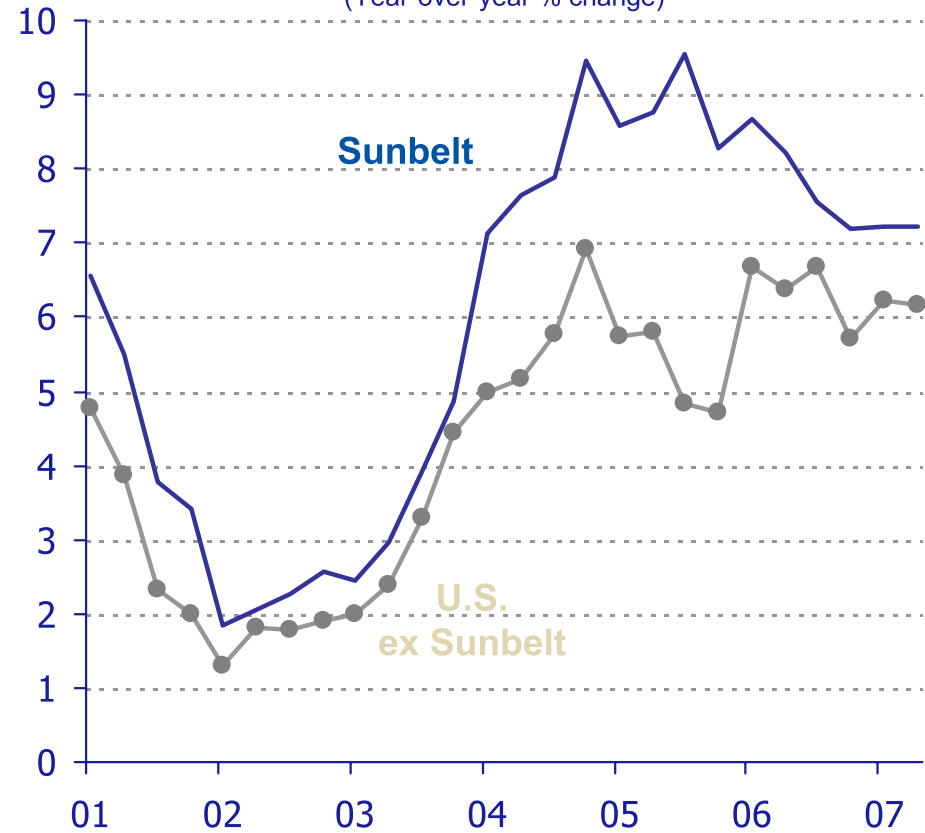
This outlook is supported by higher income gains

**Coincident Indexes**  
(Year-over-year % change, Philly Fed)



Source: BBVA USA ERD, weighted with share of employment

**Personal income**  
(Year-over-year % change)



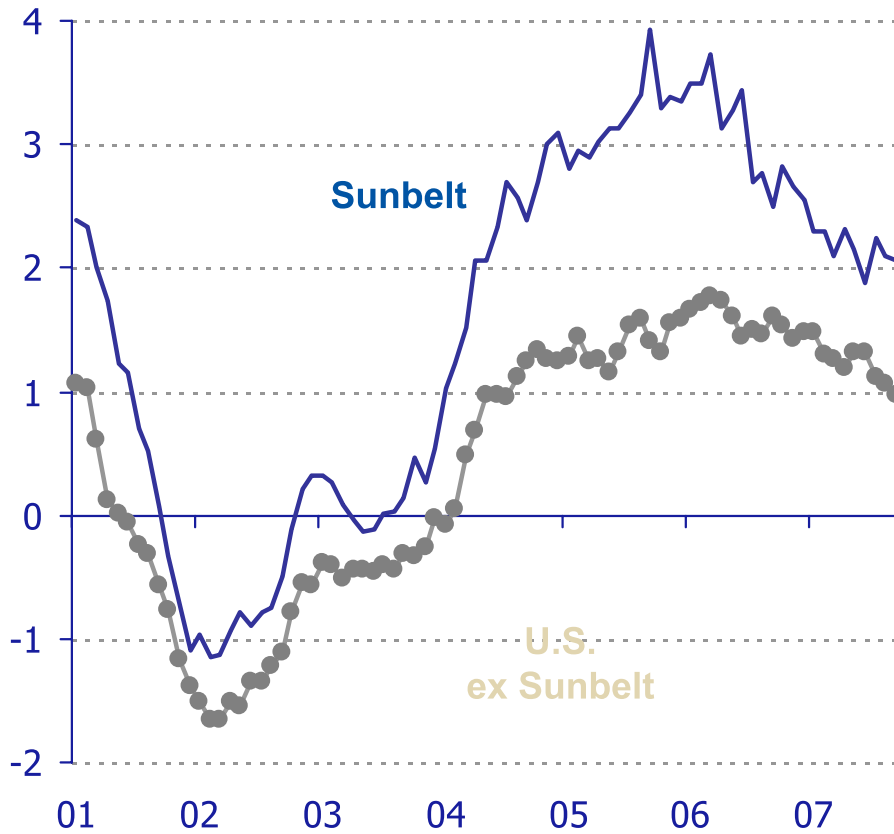
Source: BEA



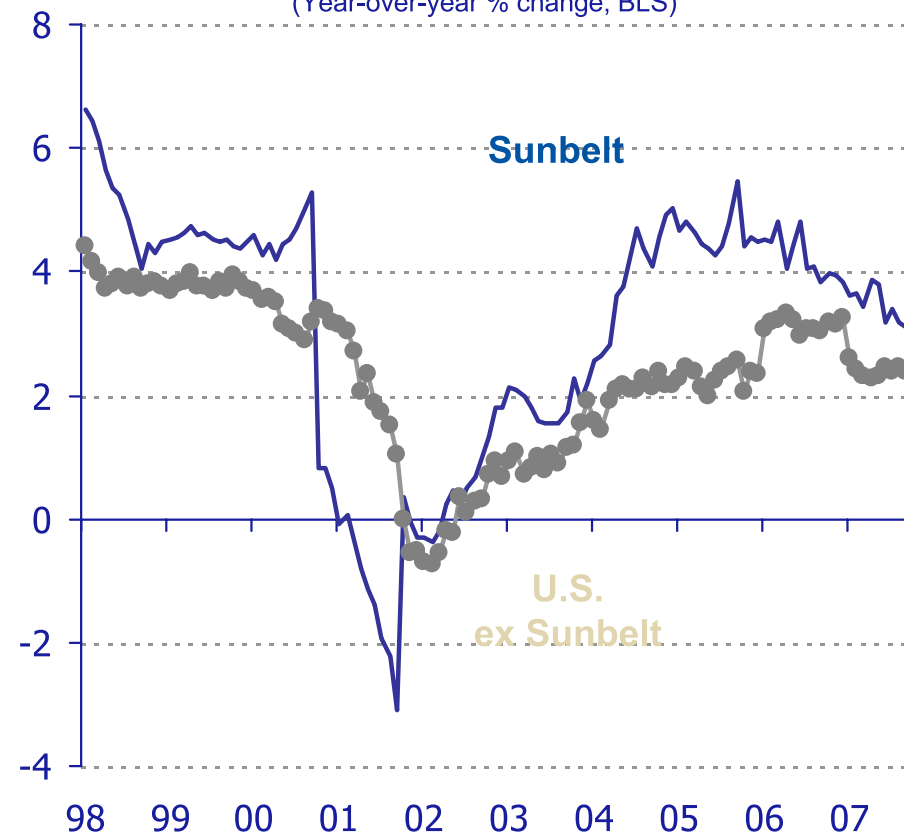
# Sunbelt: Positive outlook

And strong job creation

Non-farm payroll  
(Year-over-year % change, BLS)



Professional & business services plus education & health services employment  
(Year-over-year % change, BLS)

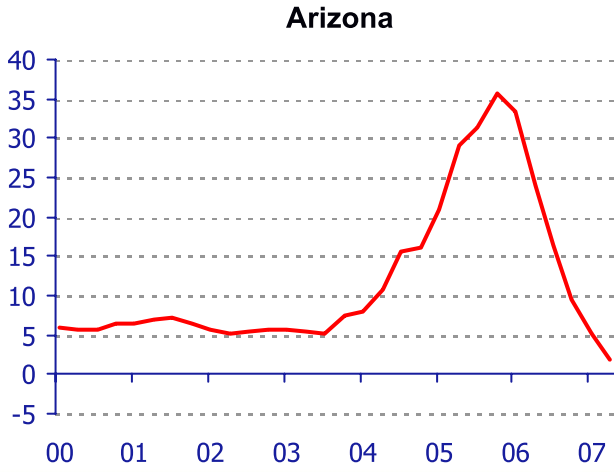
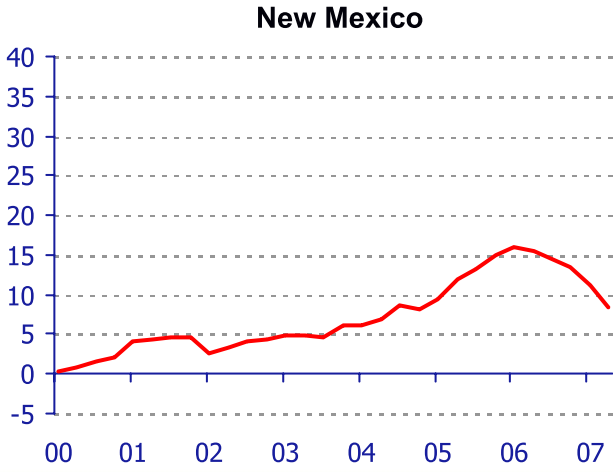
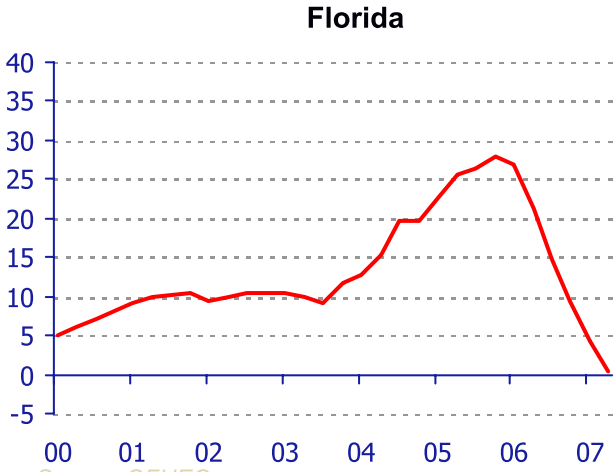
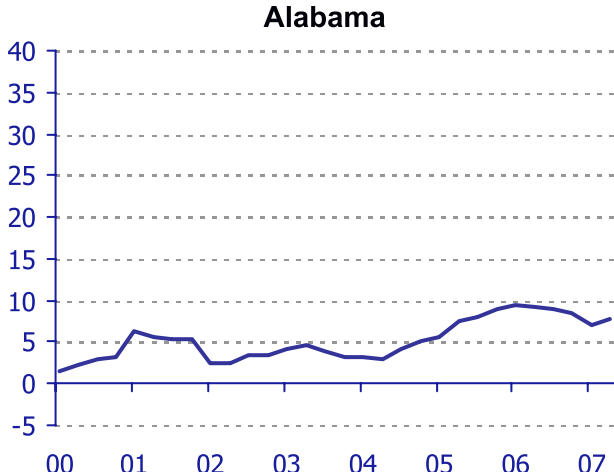
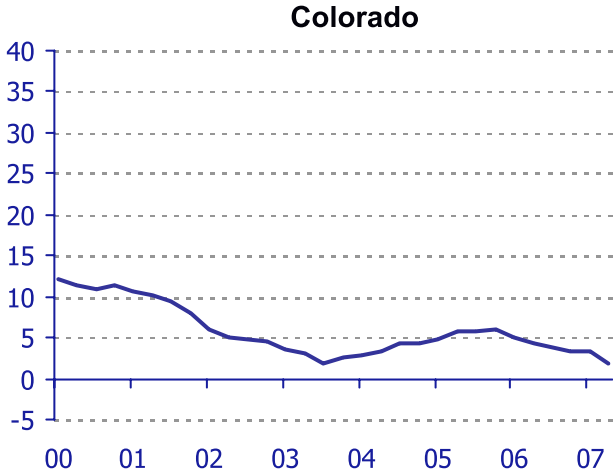
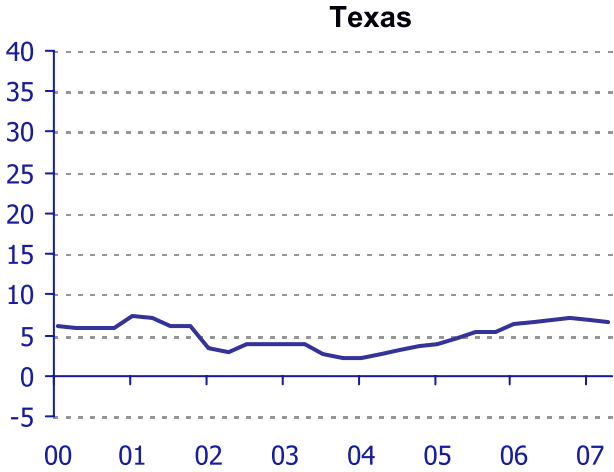




# Sunbelt: Positive outlook

States' home price dynamics exhibit significant differences

Home Prices  
(Single family, 4-quarter % change)



Source: OFHEO

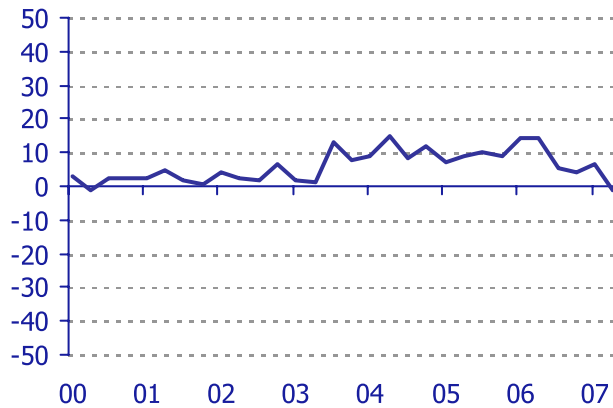


# Sunbelt: Positive outlook

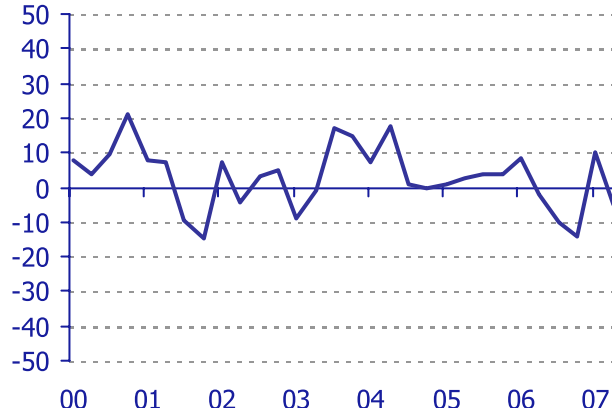
Which are also evident for home sales

Existing Home Sales  
(Single family, 4-quarter % change)

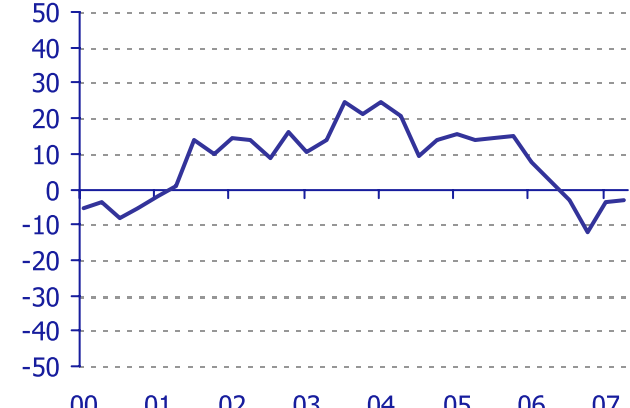
Texas



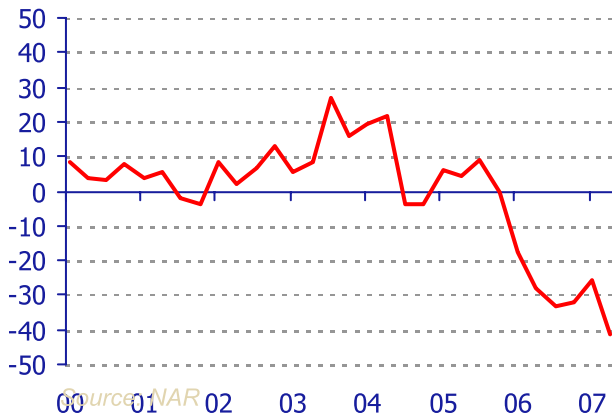
Colorado



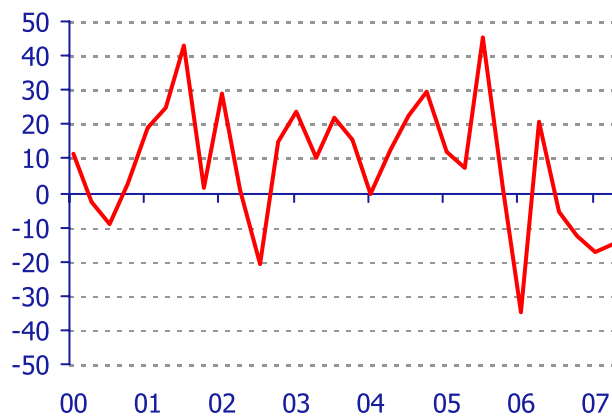
Alabama



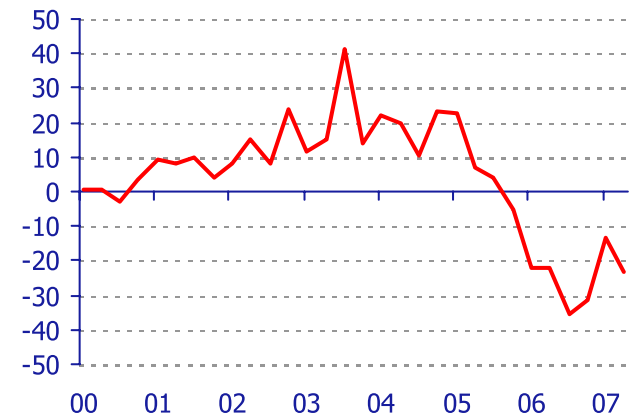
Florida



New Mexico



Arizona



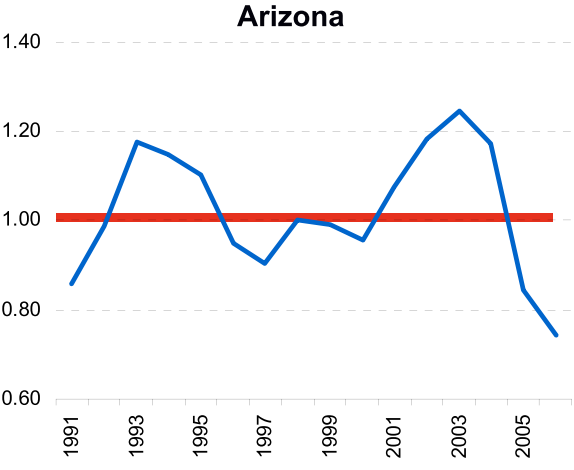
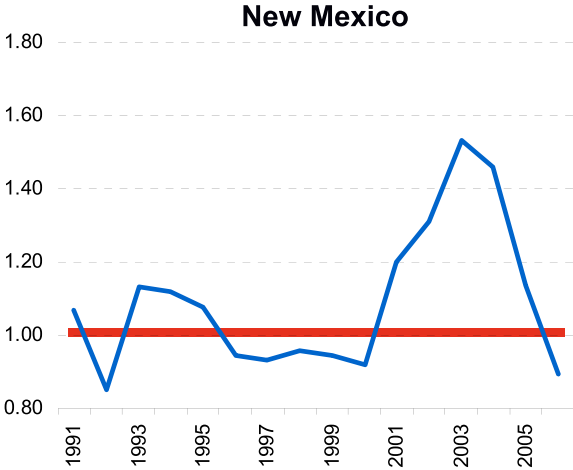
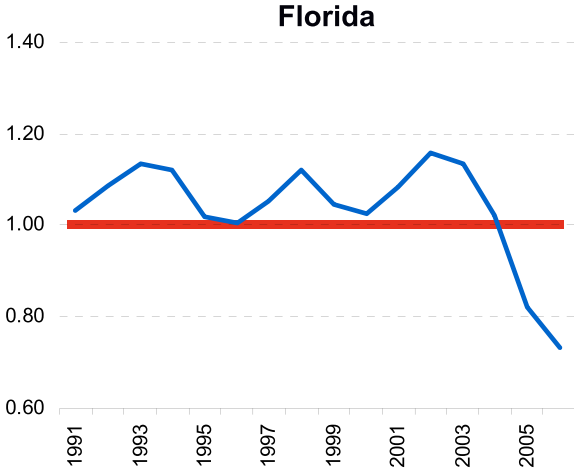
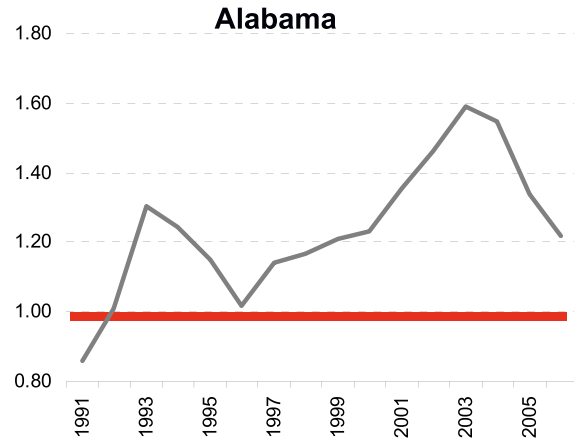
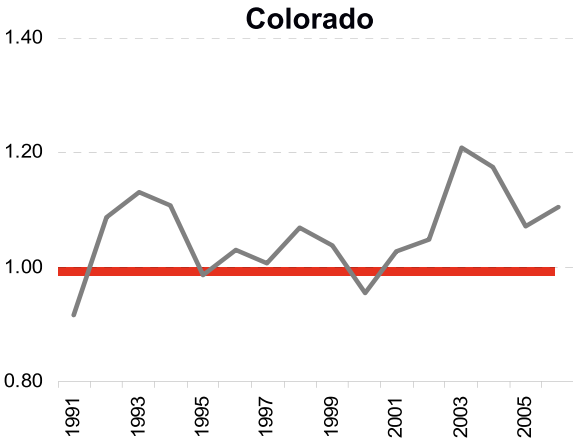
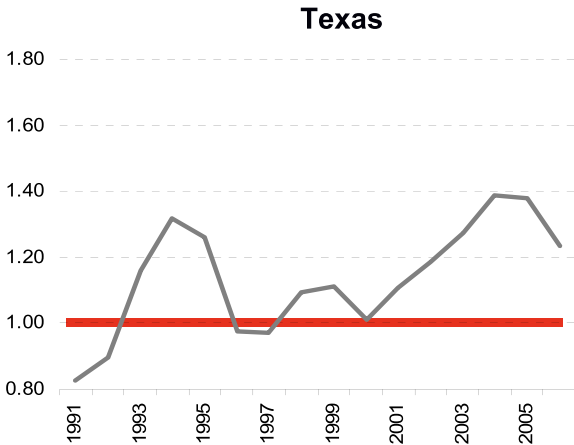
Source: NAR



# Sunbelt: Positive outlook

In Texas, Colorado and Alabama housing affordability is well above home prices

Ratio of Housing Affordability to Home Prices



Source : BBVA USA ERD

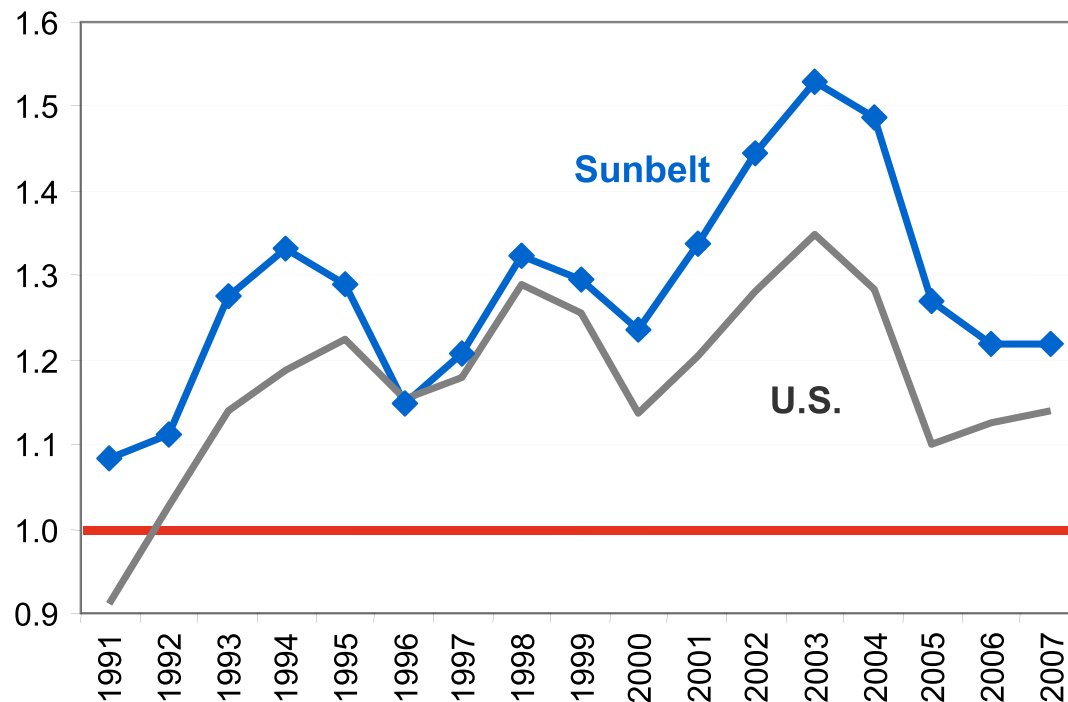




# Sunbelt: Positive outlook

Sunbelt states benefit from stronger housing market fundamentals than the U.S.

Ratio of housing affordability to home prices



Note: Mortgage = 80% price of Single Family Home. Monthly payments = 25% Family Gross Income

Source BBVA ERD

1. Higher population growth: both in- and out-of-state
2. Strong job creation
3. Lower unemployment rates
4. Firm income growth
5. Lower home price appreciation
6. Minimal land constraints





## Sunbelt: Positive outlook

### Real GDP Growth, %

	2006	2007	2008	2009	2010
AL	3.3	3.0	2.8	3.0	3.3
AZ	6.6	3.8	2.7	2.9	3.7
CO	4.7	3.8	3.2	3.4	3.5
FL	4.2	3.9	3.8	4.2	4.5
NM	6.0	5.0	4.2	4.6	4.8
TX	4.9	3.3	3.6	3.7	4.1
U.S.	2.9	2.1	2.2	2.6	2.9

Source: BBVA USA Economic Research Department. Forecasts 2007 onwards

150  
years

adelante



**BBVA** making the difference