

U.S. Regional Economy: A Western Swath of Strength

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The U.S. economy expanded at a 4.1% annual rate in 2018Q2, the strongest gain in nearly four years, as federal fiscal stimulus started to kick in. With such vigour at the national level, we again ask the question: What’s the state of the states? Before answering, keep in mind that the economy’s current major tailwind—fiscal policy—and current minor (but could become major) headwind—trade policy—will impact individual states differentially. Although the benefits of federal fiscal stimulus are ubiquitous, some states will reap proportionately more than others given, for example, their relative exposure to business equipment manufacturing that is benefitting from corporate tax cuts (and late-cycle capacity constraints), or companies with federal contracts. By the same token, although the costs of trade restrictions are also ubiquitous, some states stand to be hit proportionately harder given their relative export exposure. Consequently, comparative state economic performance is currently in a state of flux.

Nevertheless, on the ground now, our State Economic Scorecard reveals a swath of economic strength stretching from Washington to Texas (*Chart 1, next page*). In our ranking of overall economic performance¹ (*Table 1*), 10 of the 12 states in the top quartile are found in the western half of the continent. Indeed, the U.S. economy is on a Rocky Mountain high, with Utah sitting at the top of the table, followed by Idaho and Colorado (and Wyoming coming in at #7). The Southeast is the most eclectic region, home to the remaining states in the top quartile (Florida and Tennessee), but also home to a cluster of states in the bottom quartile (Mississippi, Alabama and Louisiana). Another cluster in the bottom quartile is the contiguous grouping of New York, New Jersey, Connecticut, Vermont and Delaware. The Midwest is awash with rankings in the two middle quartiles, apart from Illinois at the bottom and Nebraska at the top.

Looking at the categories that comprise our ranking, the business conditions metric has the largest weight, with state GDP growth one of its major elements (the others are the growth rates of population, the Coincident Economic Activity Index, and nominal exports). Note that state GDP is calculated on an industry basis, which can often paint an incomplete picture of a sub-national or regional economy. This is why we don’t use GDP as the sole barometer of

Table 1
State Economic Scorecard Summary

(as of August 3, 2018)

State	Weight:	Business Rank	Labour Conditions	Housing Market	State Finances
		35%	30%	20%	15%
Utah	1	4	3	3	4
Idaho	2	7	1	1	7
Colorado	3	1	2	4	14
Nevada	4	6	15	2	15
Texas	5	5	5	10	16
Washington	6	2	9	5	32
Wyoming	7	13	7	33	1
Florida	8	15	6	15	6
Arizona	9	3	19	8	42
Tennessee	10	14	11	9	10
Nebraska	11	28	18	11	5
Oregon	12	8	25	25	20
North Carolina	13	16	12	14	22
California	14	21	24	6	37
Georgia	15	22	20	12	24
Rhode Island	16	12	23	18	36
Wisconsin	17	27	14	16	27
Virginia	18	17	13	39	18
South Carolina	19	20	22	23	30
South Dakota	20	37	26	27	3
Michigan	21	9	40	19	29
Montana	22	26	31	21	11
Missouri	23	19	28	28	13
New Hampshire	24	29	21	22	19
Kansas	25	42	8	24	25
Indiana	26	31	30	17	17
Minnesota	27	46	29	7	12
Maryland	28	10	43	35	35
Ohio	29	30	37	20	26
Massachusetts	30	32	17	31	43
West Virginia	31	18	41	29	41
Maine	32	40	10	40	34
Hawaii	33	50	4	42	23
Iowa	34	49	16	30	21
Pennsylvania	35	24	34	43	44
Kentucky	36	33	49	13	49
Arkansas	37	34	38	37	38
Oklahoma	38	39	27	48	8
North Dakota	39	35	42	50	2
Louisiana	40	38	32	41	48
Alabama	41	48	33	32	31
Delaware	42	44	36	36	33
Illinois	43	36	39	38	47
Vermont	44	41	35	44	28
Connecticut	45	23	47	49	40
New Jersey	46	25	44	47	50
Mississippi	47	43	48	34	45
Alaska	48	11	50	26	9
New York	49	45	45	45	39
New Mexico	50	47	46	46	46

¹ State rankings are derived from the weighted average number of standard deviations away from the 50-state average, across four indicators in each of four categories. For the complete report, see State Economic Scorecard, <https://economics.bmocapitalmarkets.com/economics/score/20180803/sr201808.pdf>.

state economic conditions (besides, the vast majority of the other indicators we track are more timely).

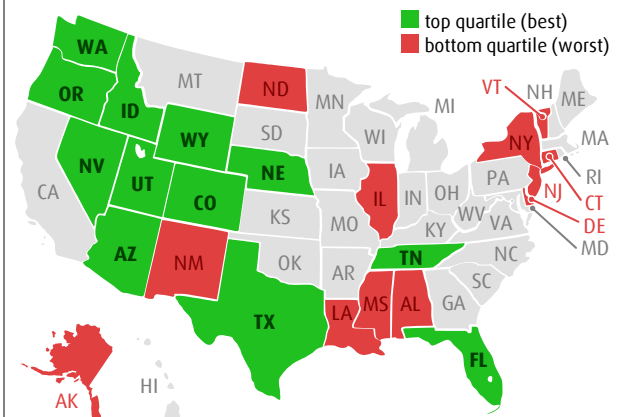
In 2018Q1, real GDP growth was positive for all 50 states, ranging from 4.9% y/y in Wyoming to 0.4% y/y in Minnesota (the comparable U.S. figure was 2.6% y/y). Note that fastest-growing Wyoming scored 7th in overall economic performance, partly owing to a poorly ranked housing market. Slowest-growing Minnesota scored 27th, reflecting relatively high rankings for its housing market and state finances. Utah was #1 in overall economic performance, despite sporting the 7th fastest-growing GDP, because of its high-ranked labour and housing markets, and state finances. It's interesting that, despite some dissimilarity between rankings of overall economic performance and GDP growth, the theme revealed in the former is also revealed in the latter. For example, the 10 fastest-growing states corroborate the western swath of strength running from Washington to Texas, and led by the Rocky Mountain region (*Chart 2*).

The labour market metric has the second largest weight in our scoring, with the jobless rate and increase in nonfarm payrolls two major elements (the others are the growth in average weekly earnings and hours). While U.S. labour market conditions were strong in June (jobless rate 4.0%, payrolls 1.7% y/y), they were uneven across the nation. The growth in nonfarm payrolls ranged from 3.0% y/y in Utah and Idaho to a contraction of 1.0% in Alaska (North Dakota was also in the red). Again, the 10 fastest-growing job markets corroborate the western swath of strength, although North Carolina and Florida managed to crack the top 10 (*Chart 3*).

Meantime, unemployment rates ranged from a low of 2.1% in Hawaii to a high of 7.1% in Alaska. In total, 16 states fell below the U.S. figure and six were higher (the remaining 28 were at, or relatively close to, the national average). Interestingly, the six states with statistically higher jobless rates also included Arizona, Nevada, and Washington (all at 4.7%). Job gains in these hot economies are simply not keeping up with even stronger labour force gains.

Looking at employment on a sectoral basis, manufacturing picked up everywhere in the past year except in New York, Kentucky and Vermont. American factories are benefitting as business investment is improving, reflecting the rebound in oil- and agriculture-related capex along with the response to late-cycle capacity constraints; and, of course, tax cuts. Meanwhile, record oil production provided a boost for mining jobs too—a stark turnaround from early last year. And, after one of the toughest years, ever, for U.S. brick and mortar retailers, jobs in this sector are beginning to see a mild pickup, although not in all states.

Chart 1
Overall State Economic Performance

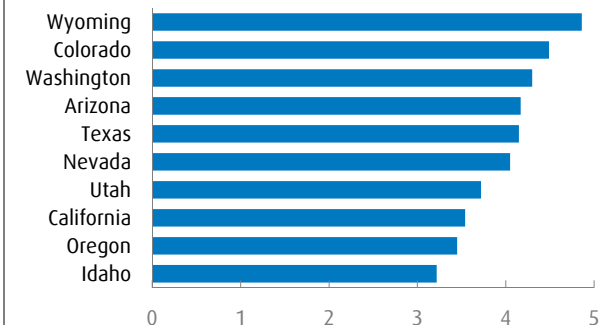


Sources: BMO Economics, Haver Analytics

Chart 2
Rocky Mountain High

2018:Q1 (y/y % chng : s.a.)

Real GDP — Top 10 States

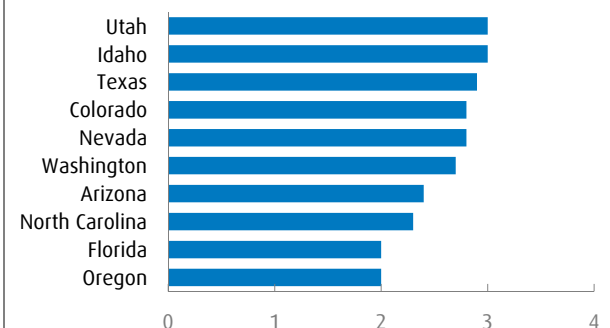


Sources: BMO Economics, Haver Analytics

Chart 3
West is the Best for Job Growth

June 2018 (y/y % chng : s.a.)

Nonfarm Employment — Top 10 States



Sources: BMO Economics, Haver Analytics

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