Nathaniel Karp
Chief U.S. Economist

“The Opportunity of the U.S. Sunbelt”
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► Structural View of Sunbelt

► A Detailed Analysis of the Region

► Economic Outlook
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)

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

Source: IMF

Source: Census
U.S.: Ranks first in global competitiveness

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Productivity Growth (Non-farm output per hour, average % change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974-82</td>
<td>1.0</td>
</tr>
<tr>
<td>1983-94</td>
<td>2.5</td>
</tr>
<tr>
<td>1995-3Q07</td>
<td>2.0</td>
</tr>
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</table>

2007 World Rankings

<table>
<thead>
<tr>
<th>Category</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global competitiveness index&lt;sup&gt;1&lt;/sup&gt;</td>
<td>1</td>
</tr>
<tr>
<td>Efficiency enhancers</td>
<td>1</td>
</tr>
<tr>
<td>Innovation and sophistication</td>
<td>4</td>
</tr>
<tr>
<td>Business Competitiveness Index&lt;sup&gt;1&lt;/sup&gt;</td>
<td>1</td>
</tr>
<tr>
<td>Ease of doing business&lt;sup&gt;2&lt;/sup&gt;</td>
<td>3</td>
</tr>
<tr>
<td>Starting a business</td>
<td>4</td>
</tr>
<tr>
<td>Employing workers</td>
<td>1</td>
</tr>
<tr>
<td>Getting credit</td>
<td>7</td>
</tr>
<tr>
<td>Protecting investors</td>
<td>5</td>
</tr>
<tr>
<td>Enforcing contracts</td>
<td>8</td>
</tr>
</tbody>
</table>

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Source: BLS
U.S.: Strong long-term economic perspectives

U.S. economic performance: outgrowing its peers

Real GDP growth (Average % change)

GDP share of world total (PPP, %)

Source: IMF
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)

GDP
GDP ex residential investment

• 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

Source: BEA
The Sunbelt outperforms the rest of the U.S.

Sunbelt: for the past 28 years, growing faster

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

1978-2006

<table>
<thead>
<tr>
<th></th>
<th>Sunbelt ¹</th>
<th>U.S. ex Sunbelt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth (CAGR, %)</td>
<td>4.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Years with negative growth</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Ratio to U.S. average</td>
<td>1.3</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Source: BEA

¹All 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

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

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)**
  - Alabama
  - Arizona
  - Colorado
  - Florida
  - New Mexico
  - Texas
  - U.S.

- **Engineers as share of workforce (2003)**
  - Alabama
  - Arizona
  - Colorado
  - Florida
  - New Mexico
  - Texas
  - U.S.

- **Average SBIR program award dollars per $1 million of GDP (2001-03)**
  - Alabama
  - Arizona
  - Colorado
  - Florida
  - New Mexico
  - Texas
  - U.S.

Source: NSF
Sunbelt exhibits faster potential growth

**Real GDP**
(Projected growth, 2006=100)

- **Sunbelt**: 3.9%
- **U.S.**: 2.8%
- **U.S. ex Sunbelt**: 2.5%

**Per capita GDP**
(US$ thousands, 2006)

- **Alabama**
- **Arizona**
- **New Mexico**
- **Florida**
- **Texas**
- **Colorado**

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

<table>
<thead>
<tr>
<th>U.S. ex Sunbelt</th>
<th>-ranking</th>
<th>Growth in $U.S. (Billions)</th>
<th>Contribution (%)</th>
<th>2006 GDP % Share</th>
<th>2030 GDP % Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunbelt</td>
<td>2</td>
<td>1,428</td>
<td>11.2</td>
<td>8.1</td>
<td>9.6</td>
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<tr>
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<td>3</td>
<td>1,118</td>
<td>8.8</td>
<td>5.4</td>
<td>7.1</td>
</tr>
<tr>
<td>Florida</td>
<td>7</td>
<td>441.3</td>
<td>3.5</td>
<td>1.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Arizona</td>
<td>17</td>
<td>239.9</td>
<td>1.9</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Colorado</td>
<td>29</td>
<td>117.4</td>
<td>0.9</td>
<td>1.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Alabama</td>
<td>36</td>
<td>61.0</td>
<td>0.5</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>New Mexico</td>
<td></td>
<td>3,406</td>
<td>26.8</td>
<td>18.9</td>
<td>22.7</td>
</tr>
<tr>
<td>U.S. ex Sunbelt</td>
<td></td>
<td>9,415</td>
<td>73.2</td>
<td>81.1</td>
<td>77.3</td>
</tr>
</tbody>
</table>

* 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)
Texas: The state that leads the pack

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

Employment growth (2000-2006, %)

- Texas: 1.2%
- US: 0.5%

Foreign born persons (%, 2000)

- Texas: 15%
- US: 10%

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

- Texas: 24.5%
- US: 23.0%

Scientists & Engineers (% of labor force, 2005)

- Texas: 3.7%
- US: 3.1%

Source: BEA, Census, NSF
Texas: The state that leads the pack

Texas economy is well diversified

![Graph showing Real GDP growth (Annual % change) for Texas and the U.S.]

- **GDP ($U.S. billions, 2006)**
  - **U.S.:** 13,195
  - **TX:** 1,066

- **State Exports / GDP (%)**
  - **U.S.:** 7.9
  - **TX:** 14.2

- **Projected population growth (2006-30)**
  - **U.S.:** 0.8
  - **TX:** 1.5

- **Median Family Income (2006, $U.S.)**
  - **U.S.:** 65,093
  - **TX:** 54,554

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

- Government
- Healthcare and Education
- Professional Services
- Commerce
- Information
- Manufacturing

**Source:** BEA, Census, Wisetrade
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

<table>
<thead>
<tr>
<th>Reserves</th>
<th>U.S. Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Oil</td>
<td>22.6%</td>
</tr>
<tr>
<td>Dry Natural Gas</td>
<td>27.6%</td>
</tr>
<tr>
<td>Natural Gas Liquids</td>
<td>37.7%</td>
</tr>
<tr>
<td><strong>Rotary Rigs &amp; Wells</strong></td>
<td></td>
</tr>
<tr>
<td>Rotary Rigs in Operation</td>
<td>45.2%</td>
</tr>
<tr>
<td>Crude Oil Wells</td>
<td>28.8%</td>
</tr>
<tr>
<td>Natural Gas Wells</td>
<td>17.6%</td>
</tr>
<tr>
<td><strong>Production</strong></td>
<td></td>
</tr>
<tr>
<td>Crude Oil</td>
<td>20.8%</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>27.7%</td>
</tr>
</tbody>
</table>

Source: EIA

<table>
<thead>
<tr>
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<th>U.S. Share</th>
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<tr>
<td>Rotary Rigs in Operation</td>
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<tr>
<td>Crude Oil Wells</td>
<td></td>
</tr>
<tr>
<td>Natural Gas Wells</td>
<td></td>
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<tr>
<td><strong>Production</strong></td>
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</tr>
<tr>
<td>Crude Oil</td>
<td></td>
</tr>
<tr>
<td>Natural Gas</td>
<td></td>
</tr>
</tbody>
</table>

Source: Census

Percent increase in small- & medium-sized firms
(By employment size, % change 2000-2004)
Texas: The state that leads the pack

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

Foreign Exports by Region (2006, %)
- Texas: 15%
- California: 12%
- South: 14%
- Northeast: 17%
- Midwest: 6%
- Pacific: 7%
- PR, USVI, other: 5%
- Mexico

Texas Exports (1Q97=100)
- Computers and Electronics: 23%
- Chemicals: 19%
- Machinery: 13%
- Transport: 10%
- Petroleum: 9%
- Other: 26%

Texas’ Share: $151 Billion 14.5% of total

Source: WiserTrade
Alabama: Catching up since 2002

<table>
<thead>
<tr>
<th>GDP (US billions, 2006)</th>
<th>U.S.</th>
<th>AL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>13,195</td>
<td>161</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>State Exports / GDP (%)</th>
<th>7.9</th>
<th>8.6</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Population growth (rate 2006-2030)</th>
<th>0.8</th>
<th>0.2</th>
</tr>
</thead>
</table>


GDP Composition (% of selected industries)

- Government
- Healthcare and Education
- Professional Services
- Commerce
- Information
- Manufacturing

Alabama Exports (1Q97=100)

Transportation
Machinery
Chemicals
Total

Source: BEA, Census, Wisertrade
Sunbelt: Strong competitive advantages

**Arizona GDP (% share, selected industries)**

- Government
- Healthcare and Education
- Professional Services
- Commerce
- Information
- Manufacturing

**Florida GDP (% share, selected industries)**

- Government
- Healthcare and Education
- Professional Services
- Commerce
- Information
- Manufacturing

**Colorado GDP (% share, selected industries)**

- Government
- Healthcare and Education
- Professional Services
- Commerce
- Information
- Manufacturing

**New Mexico GDP (% share, selected industries)**

- Government
- Healthcare and Education
- Professional Services
- Commerce
- Information
- Manufacturing

Source: BEA
Sunbelt: Strong competitive advantages

- **Median family income** (U.S.$, thousands)
  - NM
  - FL
  - CO
  - AZ
  - USA

- **Exports/GDP** (%)
  - NM
  - FL
  - CO
  - AZ
  - USA

- **Projected population growth** (2006-30, %)
  - NM
  - FL
  - CO
  - AZ
  - USA

- **Bachelor's degree** (% of persons age 25+)
  - NM
  - FL
  - CO
  - AZ
  - USA

- **Scientists & engineers** (% of labor force)
  - NM
  - FL
  - CO
  - AZ
  - USA

- **Foreign born population** (%)
  - NM
  - FL
  - CO
  - AZ
  - USA
Sunbelt: Strong competitive advantages

Change in total high-tech exports, 1997-2006

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>US$bn</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>TX</td>
<td>25.8</td>
<td>21.9</td>
</tr>
<tr>
<td>3</td>
<td>FL</td>
<td>9.0</td>
<td>7.7</td>
</tr>
<tr>
<td>6</td>
<td>AL</td>
<td>4.6</td>
<td>3.9</td>
</tr>
<tr>
<td>25</td>
<td>CO</td>
<td>1.5</td>
<td>1.3</td>
</tr>
<tr>
<td>28</td>
<td>AZ</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td>29</td>
<td>NM</td>
<td>0.8</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Total: 117.5 US$bn, 100.0% of total

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

- Texas: 25.8 US$bn, 21.9%
- Florida: 9.0 US$bn, 7.7%
- Arizona: 4.6 US$bn, 3.9%
- Alabama: 1.5 US$bn, 1.3%
- Colorado: 1.0 US$bn, 0.9%
- New Mexico: 0.8 US$bn, 0.7%

Source: WiserTrade

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

- Texas: 3.5 US$bn
- Florida: 1.0 US$bn
- Arizona: 0.5 US$bn
- Alabama: 0.1 US$bn
- Colorado: 0.1 US$bn
- New Mexico: 0.1 US$bn

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

- Texas: 7.0 US$bn
- Florida: 2.0 US$bn
- Arizona: 1.5 US$bn
- Alabama: 1.0 US$bn
- Colorado: 0.5 US$bn
- New Mexico: 0.1 US$bn

Source: WiserTrade
## Sunbelt: Strong competitive advantages

<table>
<thead>
<tr>
<th></th>
<th>Foreign trade</th>
<th>Population Growth</th>
<th>Education</th>
<th>Regulatory Environment</th>
<th>Taxes</th>
<th>Competitiveness</th>
<th>GDP</th>
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<tbody>
<tr>
<td><strong>Texas</strong></td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td><strong>Arizona</strong></td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
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<tr>
<td><strong>Colorado</strong></td>
<td>X</td>
<td>√</td>
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<tr>
<td><strong>Alabama</strong></td>
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<td>√</td>
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<tr>
<td><strong>Florida</strong></td>
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<td>√</td>
<td>X</td>
<td>X</td>
<td>√</td>
<td>X</td>
<td>√</td>
</tr>
</tbody>
</table>

Source: BBVA USA Economic Research Department
► Structural View of Sunbelt

► A Detailed Analysis of the Region

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

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

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

Source: BEA
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
This outlook is supported by higher income gains.

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

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

Source: BBVA USA ERD, weighted with share of employment

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)

Texas
Florida
Colorado
New Mexico
Arizona

Source: OFHEO
Sunbelt: Positive outlook

Which are also evident for home sales

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

Florida
Texas
Colorado
New Mexico
Alabama
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.

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

Ratio of housing affordability to home prices

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

Source: BBVA ERD
## Sunbelt: Positive outlook

### Real GDP Growth, %

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>AL</td>
<td>3.3</td>
<td>3.0</td>
<td>2.8</td>
<td>3.0</td>
<td>3.3</td>
</tr>
<tr>
<td>AZ</td>
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Source: BBVA USA Economic Research Department. Forecasts 2007 onwards