

REGIONAL ECONOMIC SNAPSHOT

UPDATED AS OF JANUARY 2025

**EMPOWERING
AMERICAN CITIES**



FIFTH THIRD / UNC KENAN INSTITUTE

In our base-case scenario, we expect slowing, middling growth in 2025, as interest rates and inflation remain elevated and federal policies drag on the national economy.

The U.S. economy showed resilience in 2024, growing at essentially the same pace as the previous year, outperforming our expectations. We expect job creation and consumer spending to slow in 2025 yet remain strong enough to power the economy through policy-induced turbulence and other economic headwinds, which could entail inflationary conditions and a persistently tight housing market.

Uncertainty is high regarding policies that could take effect, including on interest rates, tariffs, immigration, regulation and taxation. Our base-case scenario incorporates a moderate version of these policies, finding that these changes would slightly rein in growth compared with a “no new policy” scenario.

All the 150 Extended Metropolitan Areas (EMAs) that we track in the United States are expected to see slower rates of growth than in the previous year. Despite weaker growth, the data indicate that every one of these microeconomies will expand in 2025, yet some will fare better than others. Areas with a large manufacturing base and those that have benefited



The color spectrum indicates a distribution that ranges from negative (red) to positive (green), with zero set to yellow. The barometers reflect each indicator's historical distribution.

from strong housing will be among the hardest hit, as elevated interest rates continue to take a toll on interest-sensitive sectors.

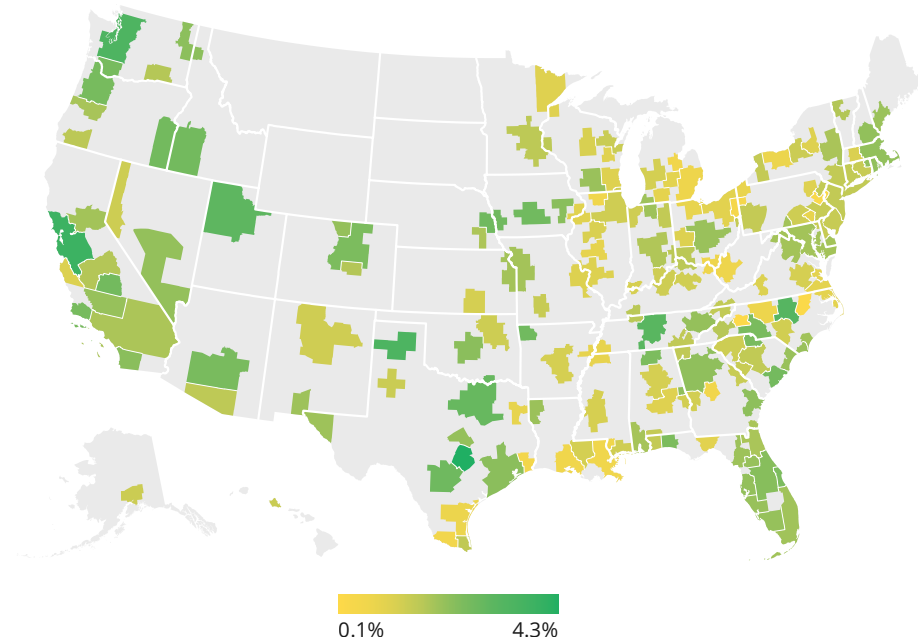
On the supply side, job creation is expected to slow meaningfully. Some sectors, notably Manufacturing, will experience job loss, while Education and Health will continue its expansion, albeit at a somewhat slower pace. The employment slowdown will weigh on wage growth, which should lessen price pressures. Stringent immigration policies, new tariffs and a lack of housing, however, would counter deflationary trends, keeping inflation above target throughout the year.

On the demand side, elevated interest rates, above-target inflation and slow-

ing job and wage growth will dampen but not swamp consumer spending. Meanwhile, sluggish housing activity will worsen shortages in many areas, keeping home prices aloft. Household and business balance sheets remain healthy in aggregate, yet a growing minority of consumers exhibit signs of financial stress.

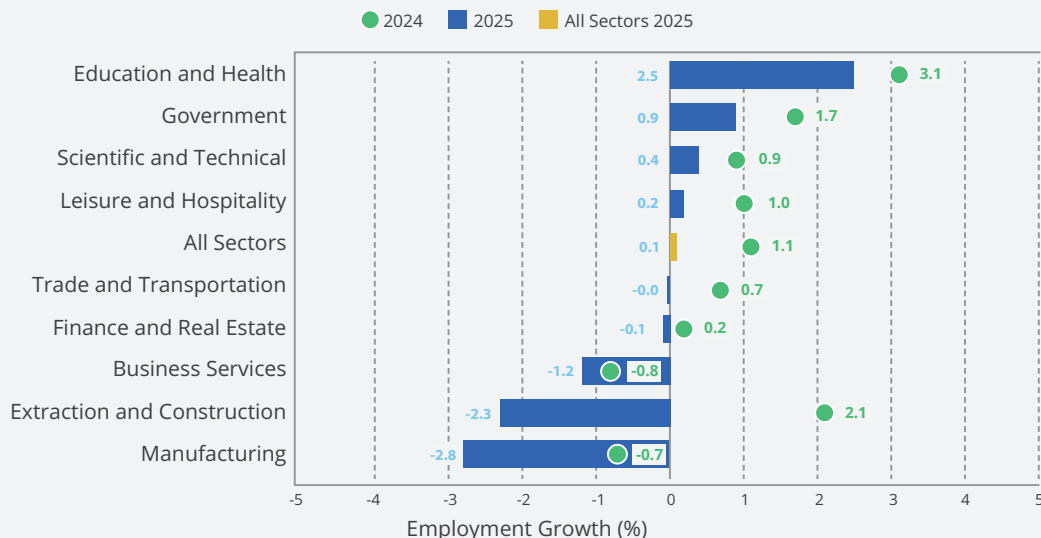
Heightened policy uncertainty means more risk and more potential outcomes; some policies may boost consumer and business sentiment – and thus spending and investment – in the near term. Both our base case (with new policies) and alternative scenarios (without them) project a “soft landing” – the base case reflects a less desirable path, yet it is still a largely benign outlook for 2025.

EMA Economic Performance 2025 Growth Forecast



The map illustrates the divergence in economic growth among EMAs. All our EMAs are expected to grow in 2025 but at a slower pace; many will experience solid growth while some will barely grow. The areas experiencing the fastest recent growth – often beneficiaries of innovation and migration – are likely to continue to outpace the rest of the country. Many of these EMAs have built up reserves of capital in the form of skilled labor, technological infrastructure and other investments, which will limit the downturn in demand. Meanwhile, cities that rely on sectors expected to be most affected by the slowdown, such as Manufacturing, will underperform. Areas where labor constraints and housing trends are centrally important to the economy will be hampered by stubbornly elevated home prices and interest rates.

U.S. Employment Growth by Sector 2025 vs. 2024



■ The pace of hiring in 2025 is expected to slow meaningfully across the U.S. in all major sectors, with employment contracting in several sectors and net job growth of only 0.1% for the year.

■ The Extraction and Construction sector is expected to experience the biggest slowdown, swinging from healthy growth to contraction as high interest rates and potential labor shortages drag on construction.

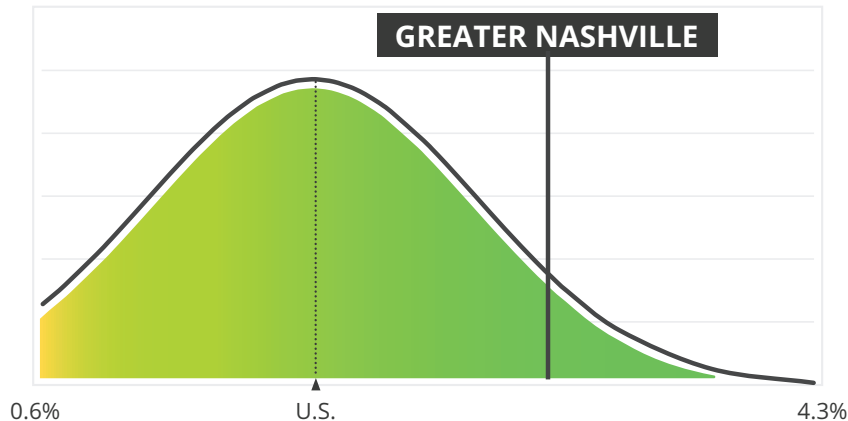
■ We expect continued slowing in Leisure and Hospitality, as pent-up demand from the pandemic years levels off and job growth flattens.

GREATER NASHVILLE

Extended Metropolitan Area*

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2025 GDP Growth
Distribution of 50 Largest EMAs



- Greater Nashville's economy is projected to experience a healthy increase in overall economic activity in 2025.
- Compared with other large EMAs, Nashville ranks in the top five, with expected growth above the national average.

Supply Side (Employment)

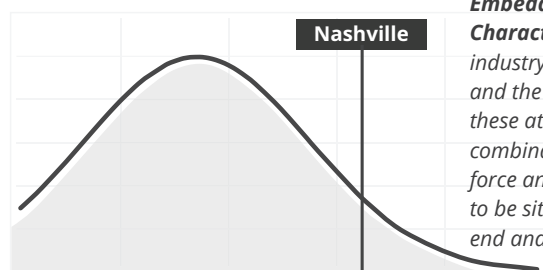


Demand Side (Consumption)



- The Nashville EMA has moderately weak supply-side characteristics, with **positive yet limited expected job creation**, and weak overall demand, as reflected in **contracting housing activity**.

Embedded Local Growth Characteristics



Embedded Local Growth

Characteristics refers to the EMA's industry and demographic makeup and the potential economic growth that these attributes generate. EMAs with a combination of a highly skilled workforce and productive industry mix tend to be situated at the distribution's high end and generate faster growth.

- Relative to other EMAs, Greater Nashville overachieves with high productivity in many sectors (illustrated on Page 4). Meanwhile, its demographic composition and migration patterns are favorable for future growth.

Key Takeaways

- Middling national growth and uncertainty around economic policy could pose challenges for Greater Nashville in 2025, but the region's diverse industry mix, demographic makeup and continuous inflow of highly skilled workers provide a strong foundation for long-term economic growth.
- Greater Nashville boasts a highly productive Leisure and Hospitality sector and ranks among the nation's top destinations for transplants and travelers, contributing to its favorable demographic mix.
- The decline in housing activity is a concerning trend, as it exacerbates Greater Nashville's housing shortage, already strained by high home prices, a growing population and uncertain mortgage rates.

Outlook



Tennessee's impressive economic growth in recent years has surpassed both the national average and neighboring states in key metrics. The Greater Nashville area's diverse and expanding mix of industries is central to the state's growth. By fostering collaboration between the public and private sectors to invest in transportation, affordable housing and workforce development, we lay the foundation for future growth. Together, we will confront challenges and seize opportunities to enhance prosperity, improve livability and build an even stronger future for all Nashvillians.

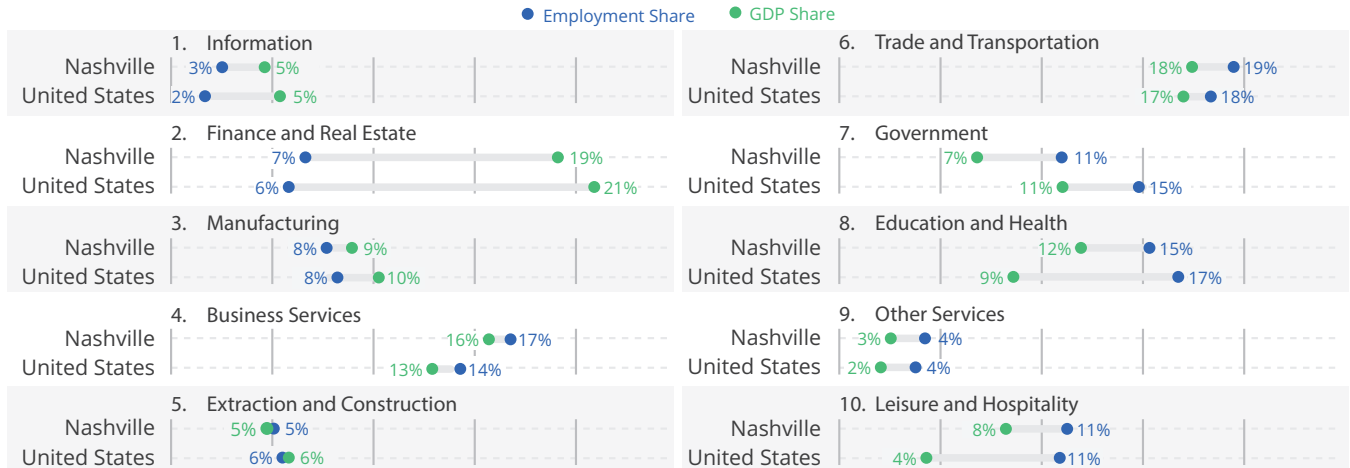
David Briggs, Regional President,
Tennessee

* Counties included in analysis: Bedford, Cannon, Cheatham, Davidson, Dickson, Lawrence, Macon, Marshall, Maury, Robertson, Rutherford, Smith, Sumner, Trousdale, Williamson and Wilson
For more information, visit kenaninstitute.unc.edu/american-growth-project

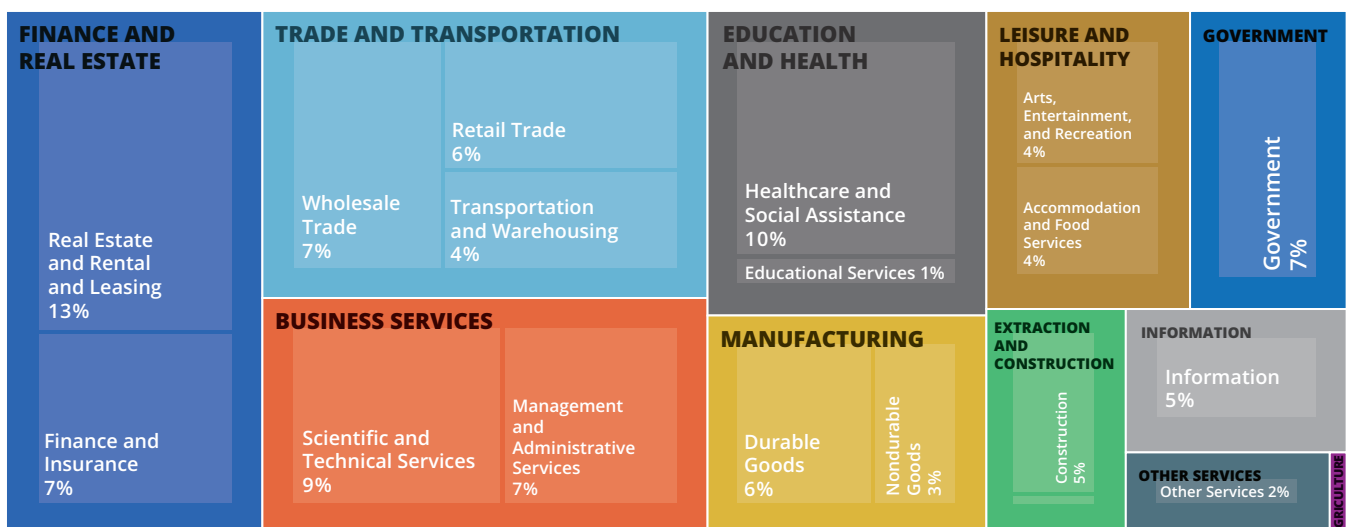
Challenges and Opportunities

- Challenge:** Greater Nashville's housing shortage, coupled with uncertain mortgage rates, could keep home prices elevated and contribute to longer commute times.
- Opportunity:** Growing political will and public pressure to build additional affordable housing points to opportunities for public-private partnerships to jump-start homebuilding in the area.
- Challenge:** Several of Nashville's most productive sectors, such as Finance and Real Estate as well as Information, tend to have lower output per worker compared with the national average for these industries, suggesting significant potential for productivity improvements.
- Opportunity:** Recently announced developments from major tech, sports and entertainment companies highlight that Nashville is a desirable location for businesses and residents. Tennessee's competitive economic incentives attract these investments, and long-term plans for transit improvements signal that the area's infrastructure can keep pace with its growth.

How Productive Are Nashville's Industries? Sector Employment and GDP Shares Ranked by U.S. Labor Productivity



Nashville Sector GDP Share



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