

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-

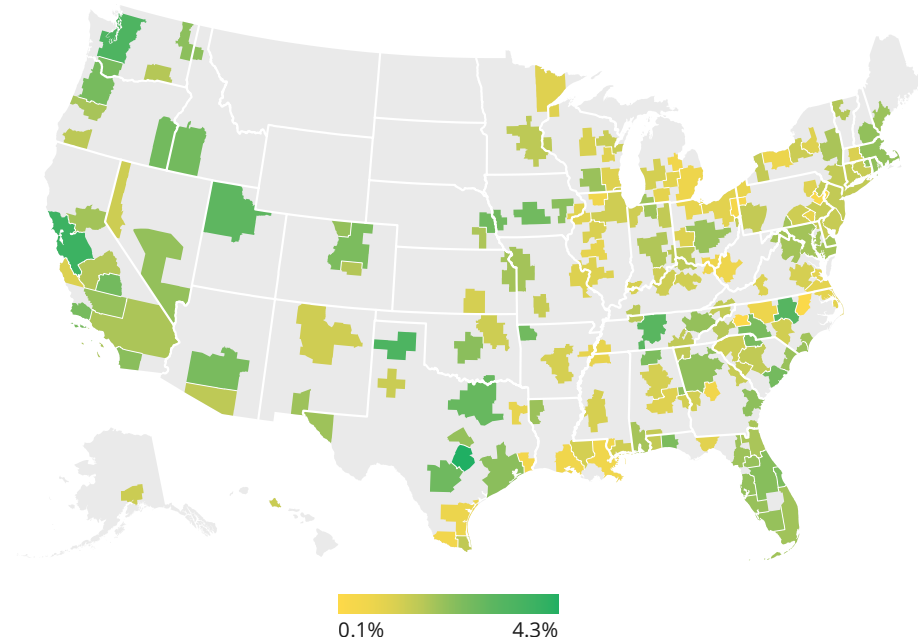
ing job and wage growth will dampen but not swamp consumer spending. Meanwhile, sluggish housing activity will worsen shortages in many areas, keeping home prices aloft. Household and business balance sheets remain healthy in aggregate, yet a growing minority of consumers exhibit signs of financial stress.

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.

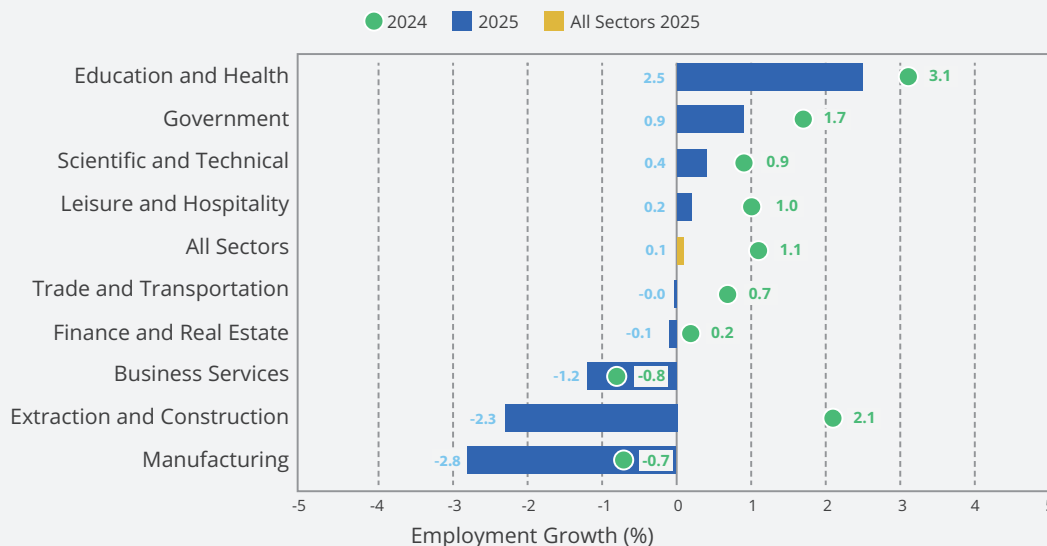
Data sources from the Census, Bureau of Labor Statistics and Bureau of Economic Analysis and estimates from the Kenan Institute and Fifth Third Bank. The range of the national barometers is based on historical performance of U.S. measures since 1990. For more information, visit kenaninstitute.unc.edu/american-growth-project.

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.

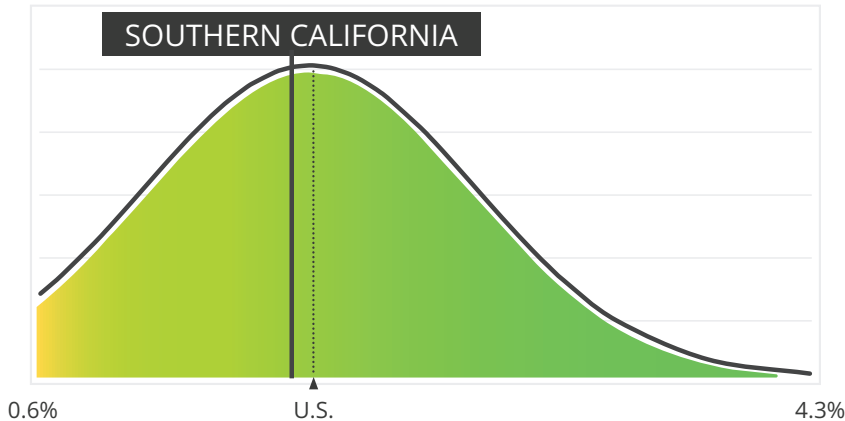
■ We expect continued slowing in Leisure and Hospitality, as pent-up demand from the pandemic years levels off and job growth flattens.

SOUTHERN CALIFORNIA

Extended Metropolitan Area*

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2025 GDP Growth
Distribution of 50 Largest EMAs



- The Los Angeles EMA is projected to experience a moderate increase in overall economic activity in 2025.
- Compared with other large EMAs, Los Angeles is just below median, with GDP growth slightly below the national average.

Supply Side (Employment)

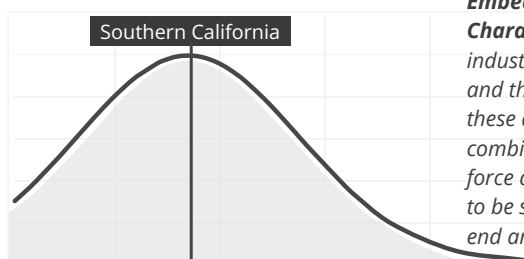


- The Los Angeles EMA has healthy supply-side characteristics, with **positive expected job creation**, soft overall demand, as reflected in **declining housing activity**.

Demand Side (Consumption)



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.

- Southern California's sectoral mix (illustrated on Page 4), demographic balance and migration patterns indicate a moderate-sized potential growth engine.

Key Takeaways

- 1 Uncertainty around interest rates, tariffs and immigration policy pose challenges for Southern California's economy in 2025, yet the area's extraordinarily productive Information sector is a promising sign of long-term health.
- 2 Southern California suffers from a housing shortage exacerbated by the high cost of land and labor, a problem reflected by exceptionally weak housing starts. Wildfires have further aggravated the situation by causing extensive damage to homes and leading to the cancellation of some residents' home insurance policies.
- 3 Southern California is distinct among EMAs in its sheer breadth, with qualities that yield demographic advantages as well as infrastructure challenges.

Outlook

Tariffs constitute a notable concern



for the region's business leaders, especially with Los Angeles' major port and extensive Trade, Transportation, and Manufacturing sectors.

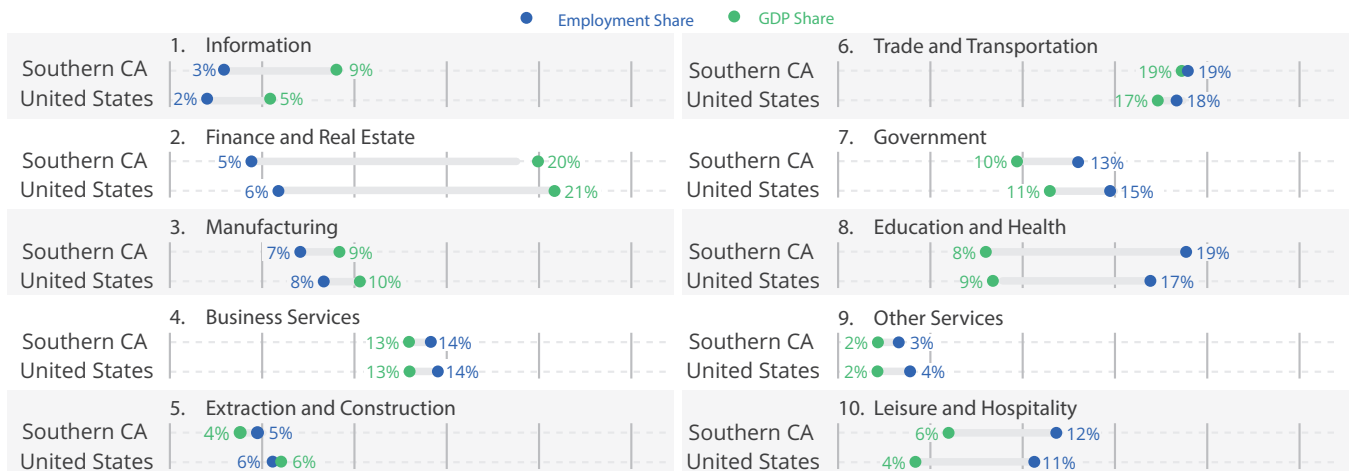
Businesses are strategizing to navigate these impacts, along with challenges like housing affordability and the high cost of living, which contribute to out-migration. However, improvements to transit systems and the 2028 Olympics present economic opportunities. Given these complexities, the new administration, and recent damage caused by wildfires, contingency planning is essential. At Fifth Third, we're engaging with business owners and management teams to prepare for various scenarios.

Brandon Ferrera, Southern California Market President

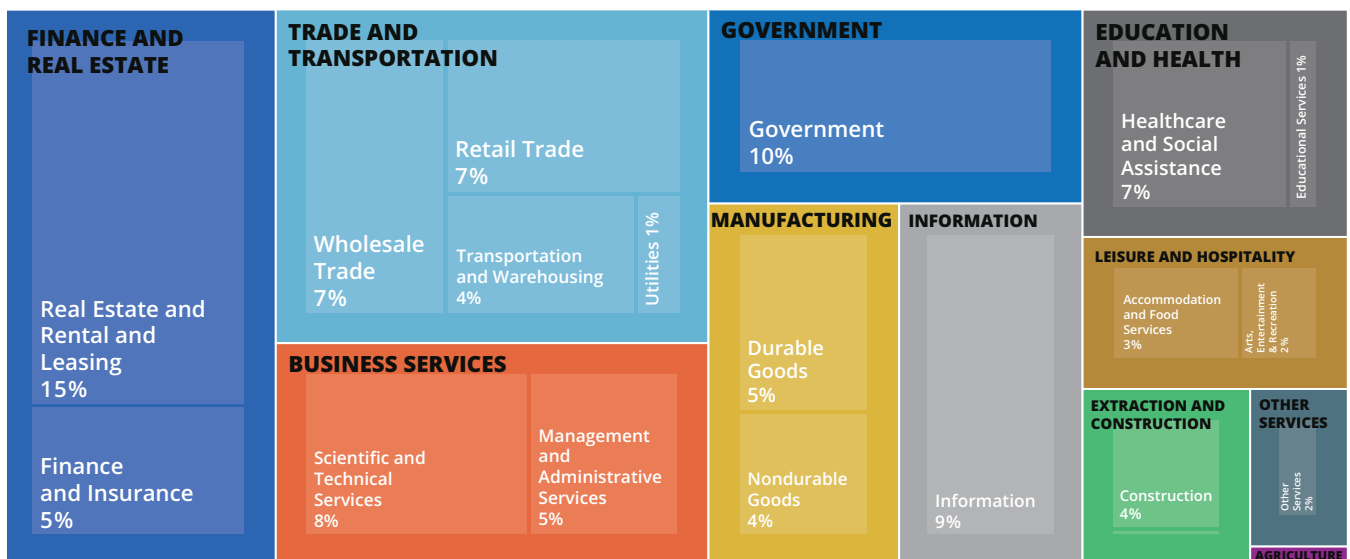
Challenges and Opportunities

- **Challenge:** Los Angeles' housing shortage and rising home insurance rates burden residents in need of affordable homes and businesses in need of skilled workers. This creates a drag on growth across the EMA.
- **Opportunity:** Collaborative efforts among private industry, civic groups and political leaders present opportunities to streamline processes and kick-start the development of smart residential communities.
- **Challenge:** Tariffs could disrupt trade flows at major ports, increasing costs for businesses and consumers, and threatening local jobs and economic activity.
- **Opportunity:** Los Angeles has the economic heft of a nation, with opportunities for smart investments in future-focused industries that leverage its globally important position and skilled labor force.

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



Southern California Sector GDP Share



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