

REGIONAL ECONOMIC SNAPSHOT

**EMPOWERING
AMERICAN CITIES**



FIFTH THIRD / UNC KENAN INSTITUTE

In our base-case scenario, we expect solid but slowing growth in 2024 with a mild recession starting late in the year, as Federal Reserve rate hikes continue to ripple through financial conditions and pricing pressures cool the national economy.

Most of the microeconomies in the United States are expected to see somewhat slower rates of growth than in the previous year, which is reflected in our projections for Extended Metropolitan Areas. Despite weaker growth, the data indicate that nearly every one of the 150 largest EMAs in the U.S. will expand in 2024. While we expect recessionary conditions by the end of the year, varied economic fortunes indicate the slowdown will be experienced unevenly. Cities with a large manufacturing base as well as those that have benefited from the recent housing boom are expected to be among the hardest hit as high interest rates take their toll on interest-sensitive spending sectors.

On the supply side of the U.S. economy, job creation is expected to slow. Some sectors, most notably Manufacturing, will experience job loss, while Education and Health will continue their upward trajectory, al-



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.

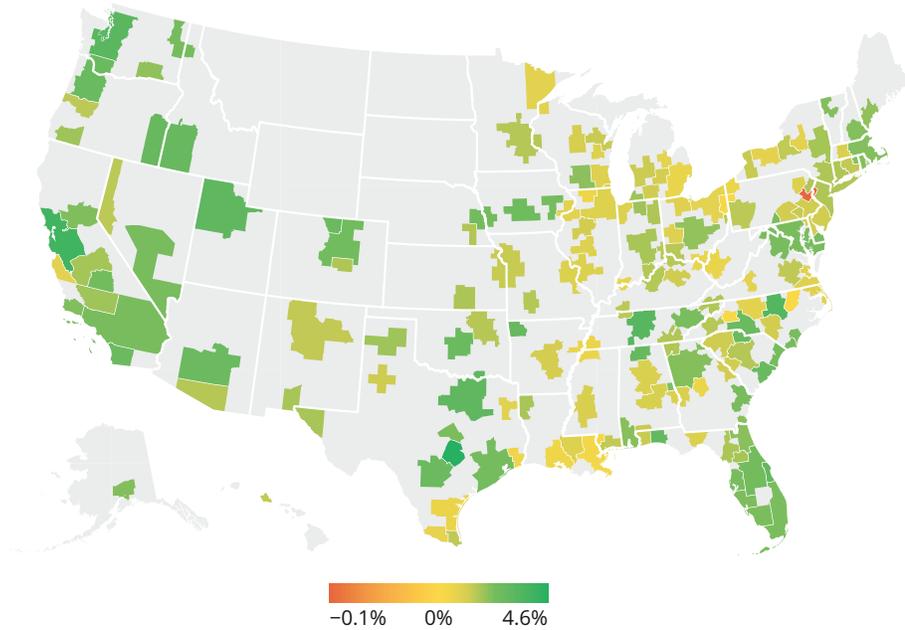
beit at a somewhat slower pace. The employment slowdown will continue to weigh on overall wage growth, ultimately lessening price pressures, although inflation is likely to remain somewhat above target during the next 12 months.

On the demand side, high interest rates, elevated inflation, and slowing job and wage growth will dampen consumer spending. Housing shortages have kept home prices aloft, and the combination of high interest rates and home prices are undercutting home affordability and housing activity. Mitigating factors, however, should limit the damage. Modest overall job gains – with significant variation across sectors and EMAs – imply that most households will re-

tain spending power. While unprecedented levels of savings have been drawn down, household and business balance sheets remain healthy in aggregate, but a significant and growing minority of consumers are exhibiting signs of financial stress.

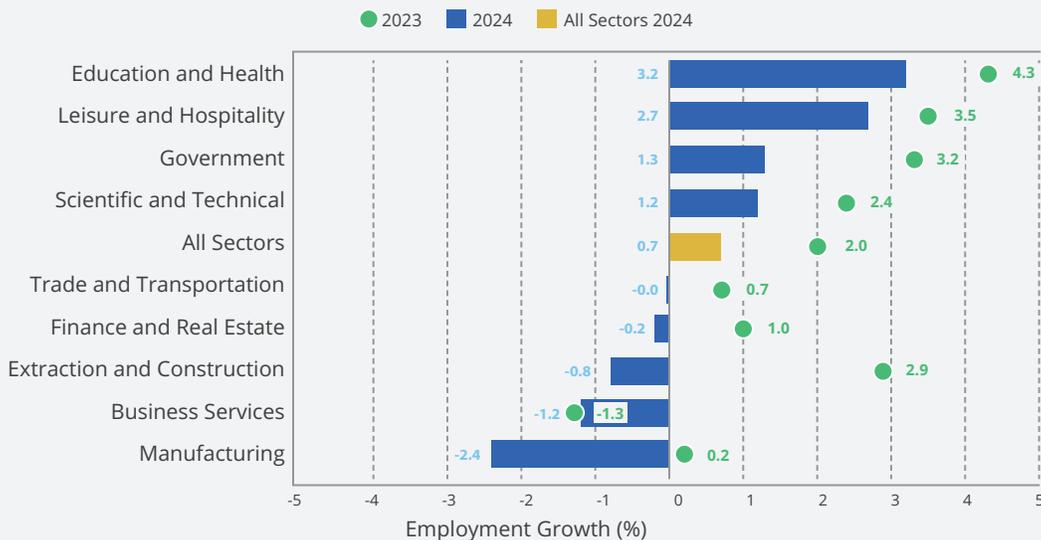
All of these and other factors are expected to yield a mild and short-lived downturn for the U.S. beginning in Q4, which will likely increase disparities in growth dynamics across EMAs. In addition to our base case of a slowdown turning into recessionary conditions, there is a significant, yet less likely, “soft landing” scenario in which the economy continues to power through headwinds with U.S. consumers fueling a solid expansion.

EMA Economic Performance 2024 Growth Forecast



The map illustrates the divergence in economic growth among EMAs. All but one of our EMAs are anticipated to grow in 2024, many will experience solid growth, and the one microeconomy projected to contract will do so by only the slightest margin. The areas experiencing the fastest recent growth – often beneficiaries of innovation and migration – are likely to continue to outpace the rest of the country. 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 and eventual recession, such as Manufacturing, will underperform. Areas where labor constraints and housing trends are centrally important to the economy will likely be hampered by stubbornly elevated home prices and interest rates.

U.S. Employment Growth by Sector 2024 vs. 2023



■ The pace of hiring in 2024 is expected to slow across the U.S. in all major sectors, with employment contracting in several sectors and net job growth of only 0.7% for the year.

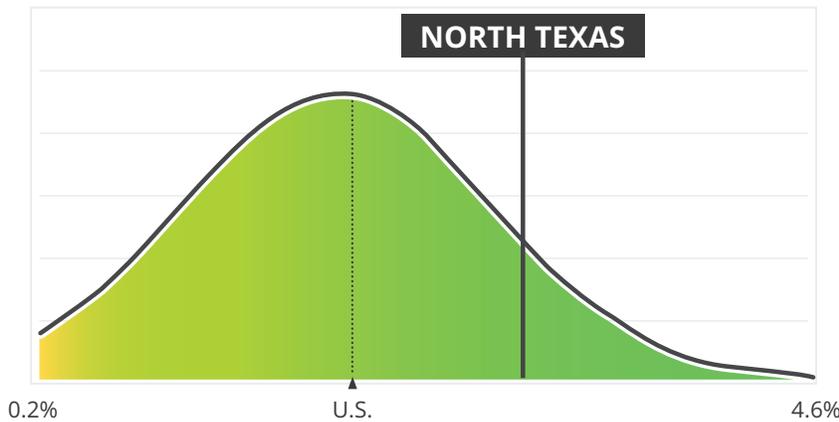
■ The Extraction and Construction sector is expected to experience the biggest slowdown, swinging from healthy growth to contraction as high interest rates create drag on construction in particular.

■ We expect a modest slowdown in Leisure and Hospitality, though there is higher-than-usual uncertainty in this prediction because of pent-up demand from the pandemic years.

NORTH TEXAS

Extended Metropolitan Area*

2024 GDP Growth
Distribution of 50 Largest EMAs



- North Texas is projected to experience healthy growth in overall economic activity in 2024.
- Compared with other large EMAs, North Texas is among the top performers, with projected GDP growth exceeding the U.S. average, which is largely thanks to the EMA's strong growth dynamics.

Key Takeaways

- The U.S. economy's projected slowdown in 2024 poses challenges for some North Texas industries, particularly in the Extraction and Construction, Trade and Transportation, and Business Services sectors, and yet the area's thriving Finance and Real Estate and Information sectors form a bedrock of long-term economic health.
- North Texas has a tight labor market and limited housing supply, which contribute to inflationary pressures and raise the cost of living, yet the EMA is well-positioned to expand its housing supply to accommodate its growing talent pool.
- The Dallas EMA has garnered recent relocation announcements from major corporations, and while the employment gains and stimulatory effects of such pledges are not yet reflected in the area's economic data, these declarations of corporate intent are promising signs of future growth.

Supply Side (Employment)

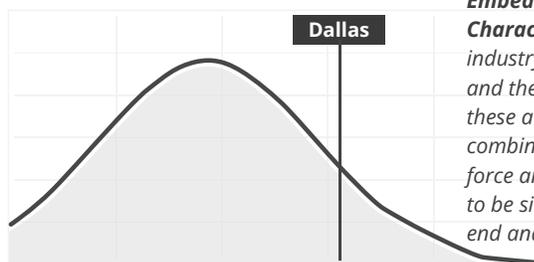


Demand Side (Consumption)



- The Dallas EMA has weak supply-side characteristics, with **limited expected job creation**, and soft overall demand, as reflected in **sluggish 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.

- North Texas' sectoral mix (illustrated on Page 4), demographic balance and migration patterns indicate a strong potential growth engine

Outlook



North Texas is a standout in the U.S. economy. Strong migration, demographics and industry mix contribute to projected economic growth of 2.9%, exceeding the U.S. average. The influx of businesses and employees is tempered by housing stock that is not keeping up with demand. But with land available and a lower cost of living, in-migration will keep North Texas humming for the foreseeable future.
Scott Silvas, Market President, Texas

* Counties included in analysis: Texas: Collin, Cooke, Dallas, Denton, Ellis, Fannin, Grayson, Henderson, Hood, Hunt, Johnson, Kaufman, Navarro, Palo Pinto, Parker, Rockwall, Tarrant, Wise. Oklahoma: Bryan.

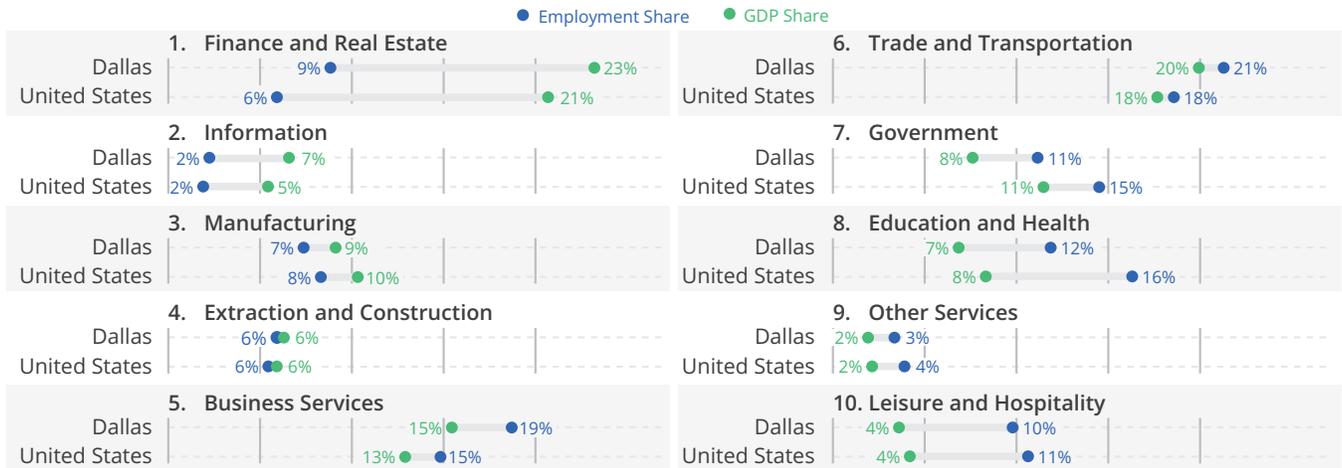
For more information, visit kenaninstitute.unc.edu/american-growth-project

Challenges and Opportunities

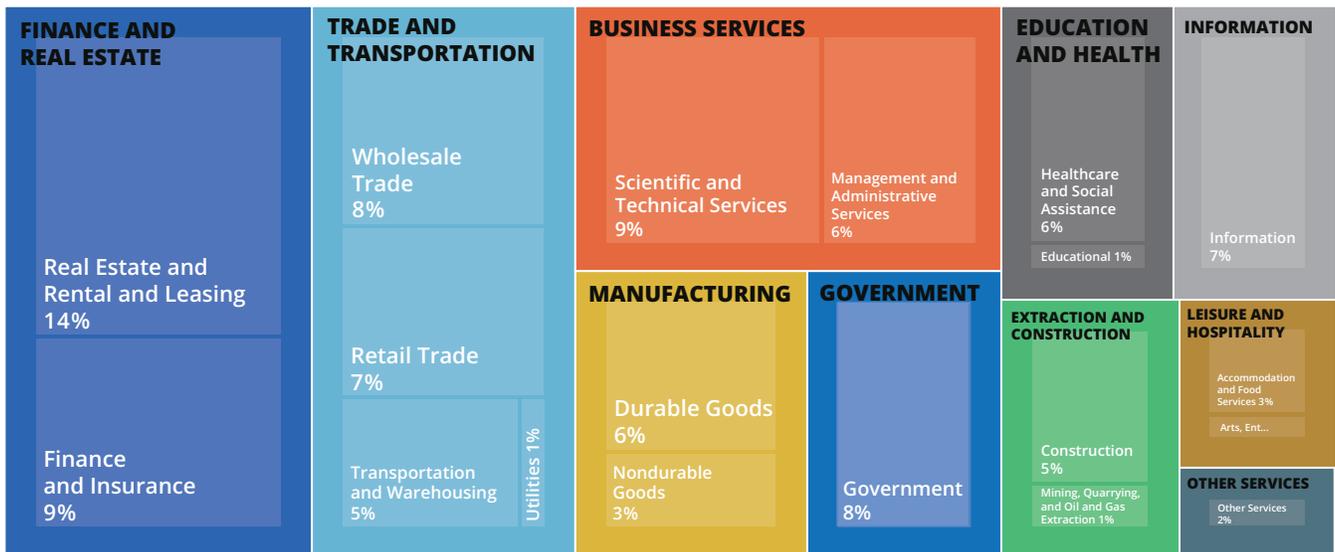
- Challenge:** In-migration strains North Texas' already short housing supply, an issue made more challenging by weak housing starts, elevated interest rates and the construction sector's expected employment contraction this year.
- Opportunity:** Boasting a large and growing finance hub and an abundance of land, North Texas has prime opportunities to initiate and accelerate smartly designed residential projects.
- Challenge:** North Texas has a disproportionately small yet unusually productive Education and Health sector, which may suggest a shortage of medical professionals, since productivity is calculated as output per worker.
- Opportunity:** With an expanding population base and influx of capital, there are opportunities for investments in the area's healthcare industries, expanding a stable sector that tends to exhibit sustained growth.

How Productive Are Dallas' Industries?

Sector Employment and GDP Shares Ranked by U.S. Labor Productivity



Dallas Sector GDP Share



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