

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

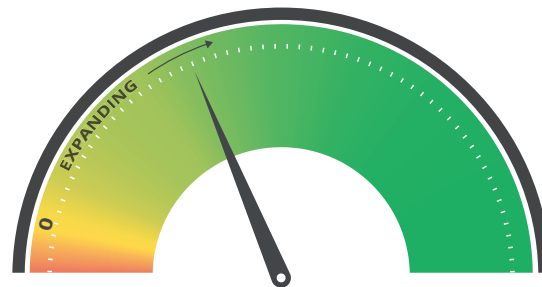
from strong housing will be among the hardest hit, as elevated interest rates continue to take a toll on interest-sensitive sectors.

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.



2025 U.S. GDP Growth Forecast



**U.S. Supply Side
(Employment)**

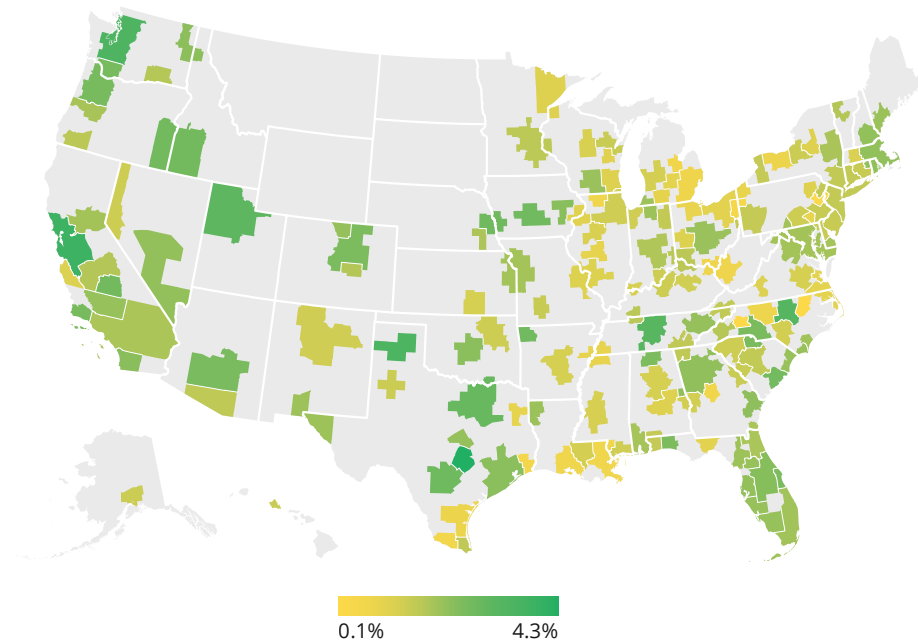


**U.S. Demand Side
(Consumption)**

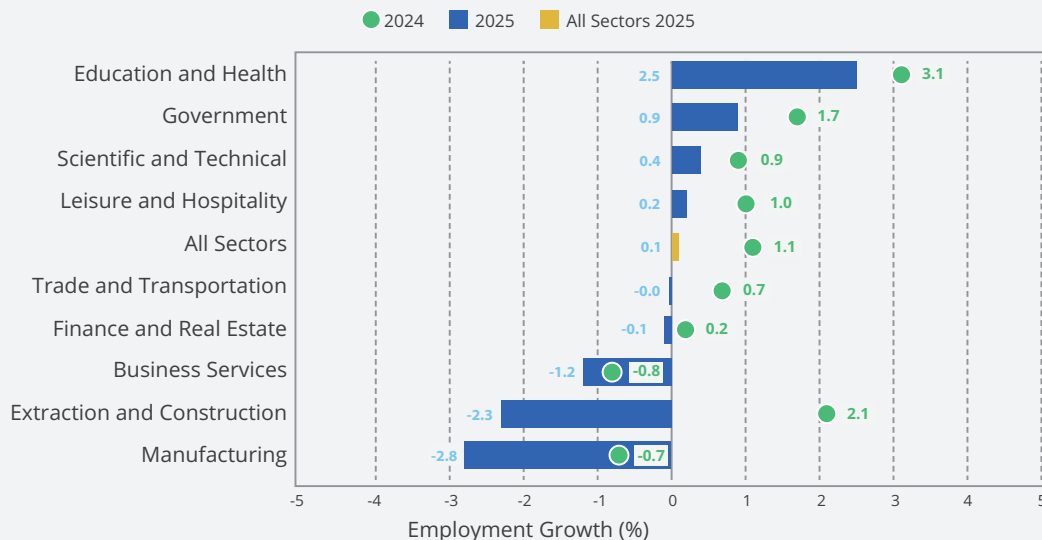
The color spectrum indicates a distribution that ranges from negative (red) to positive (green), with zero set to yellow. The barometers reflect each indicator's historical distribution.

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.

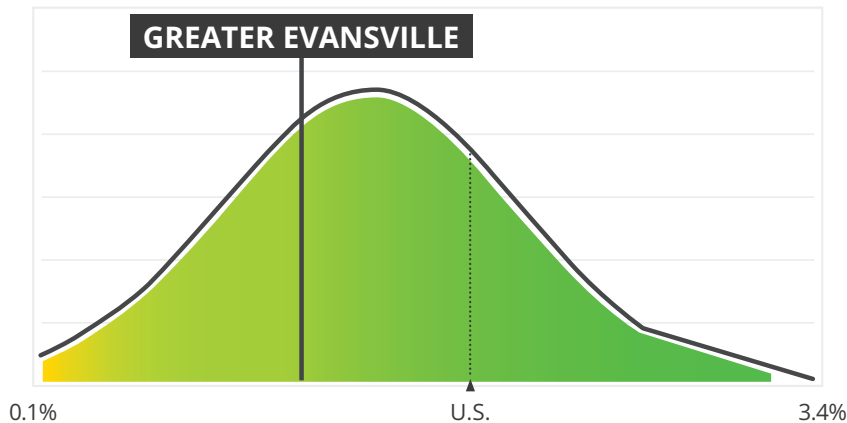
■ We expect continued slowing in Leisure and Hospitality, as pent-up demand from the pandemic years levels off and job growth flattens.

GREATER EVANSVILLE

Extended Metropolitan Area*

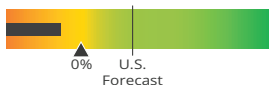
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2025 GDP Growth
Distribution of 100 Midsize EMAs

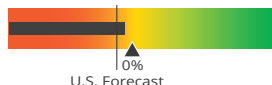


- Greater Evansville is projected to experience modest growth in overall economic activity in 2025.
- Compared with other midsize EMAs, Greater Evansville is in the bottom half, with projected GDP growth below the U.S. average.

Supply Side (Employment)

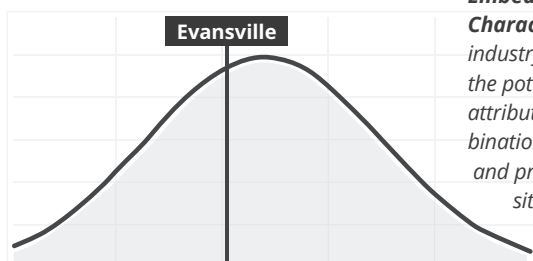


Demand Side (Consumption)



- The Evansville EMA has weak supply-side characteristics, with modest expected job losses, and soft overall demand, as reflected in slow 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.

- Greater Evansville's sectoral mix (illustrated on Page 4), demographic balance and migration patterns indicate a limited potential growth engine.

Key Takeaways

- Middling national growth and uncertainty around economic policy will pose challenges for Greater Evansville, yet the EMA's highly productive Manufacturing sector will help power economic expansion despite cyclical headwinds.
- Greater Evansville's Finance and Real Estate and Information sectors account for smaller employment and output shares than the national average, which indicates areas in need of investment, as these are highly productive sectors measured by output per worker.
- Greater Evansville's Information sector is not as productive as it is nationally, highlighting a potential opportunity for future investment.

Outlook



The one thing I'm most excited about in the next 12 months is the energizing transformation of Evansville's downtown and riverfront areas. By investing in these key areas, we can stimulate economic growth, foster city development and build a vibrant, thriving future for our community.

Mike Ash,
Regional President
Greater Indiana Gateway

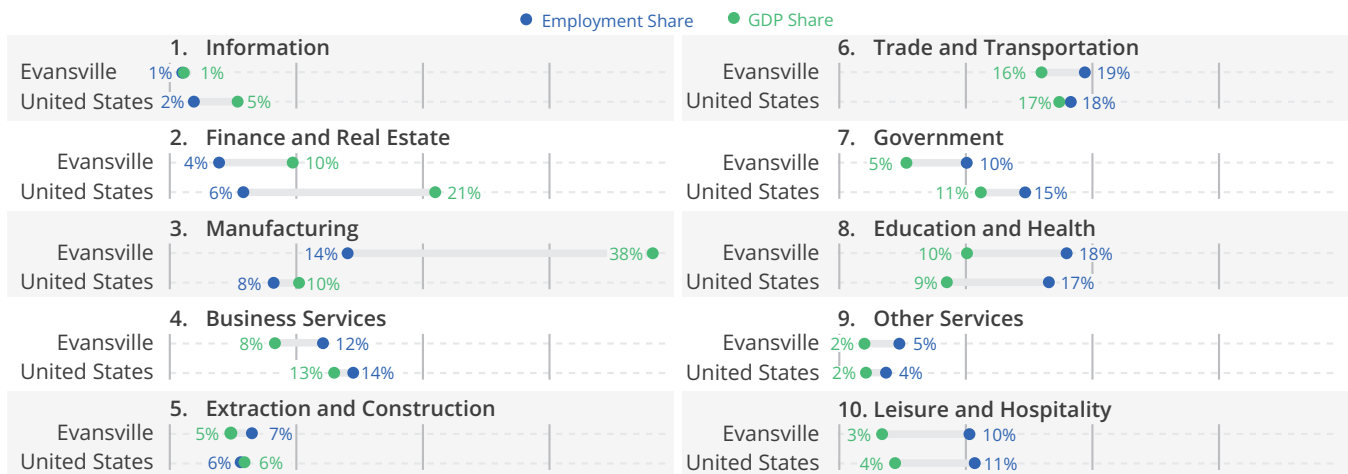
*Counties included in analysis: Indiana: Posey, Vanderburgh, Warrick. Kentucky: Henderson.
For more information, visit kenaninstitute.unc.edu/american-growth-project

Challenges and Opportunities

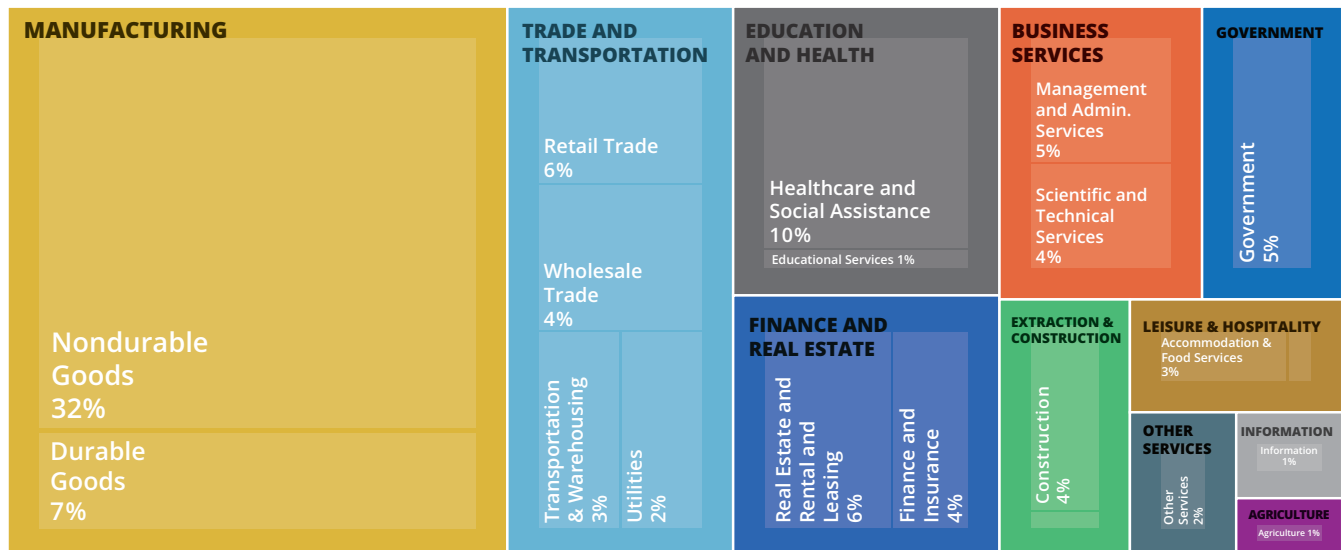
- **Challenge:** A significant portion of Evansville's workforce is employed in healthcare, which is grappling with labor shortages. Additionally, the region's aging population will require more healthcare services in the coming years.
- **Opportunity:** Evansville is addressing its healthcare challenges through initiatives like the Health Services Initiative by the Community Action Program of Evansville & Vanderburgh County, partnerships with local educational institutions, and community engagement efforts.
- **Challenge:** Greater Evansville is distinct from most other EMAs in that its Manufacturing sector dominates economic output, which exposes the economy to the effects of changing federal policies that may worsen the sector's multiyear employment contraction.
- **Opportunity:** Investments in advanced manufacturing plants show promise in diversifying the Manufacturing sector from within, allowing Greater Evansville's economy to grow even in challenging conditions.

How Productive Are Evansville's Industries?

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



Evansville Sector GDP Share



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