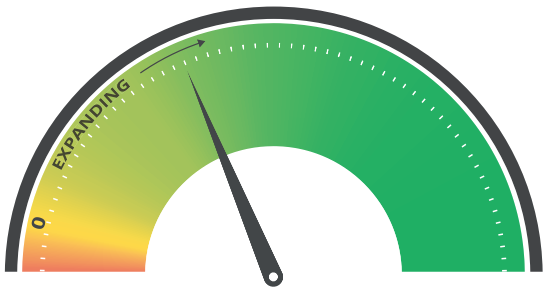
REGIONAL ECONOMIC SNAPSHOT

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.



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.

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.

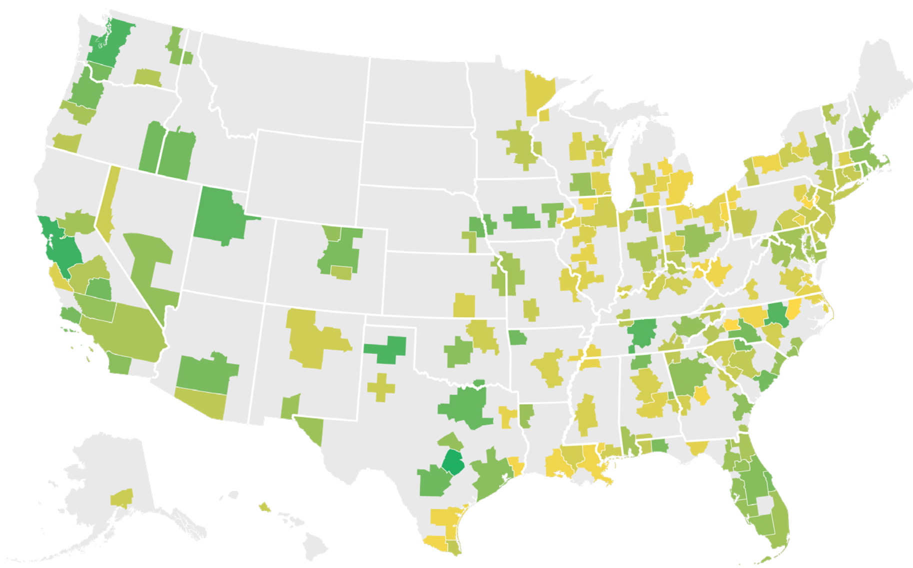
On the supply side, job creation is expected to slow meaningfully. Some sectors, notably Manufacturing, will experience job loss, while Education and Health will continue its expansion, albeit at a somewhat slower pace. The employment slowdown will weigh on wage growth, which should lessen price pressures. 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 slowing 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.

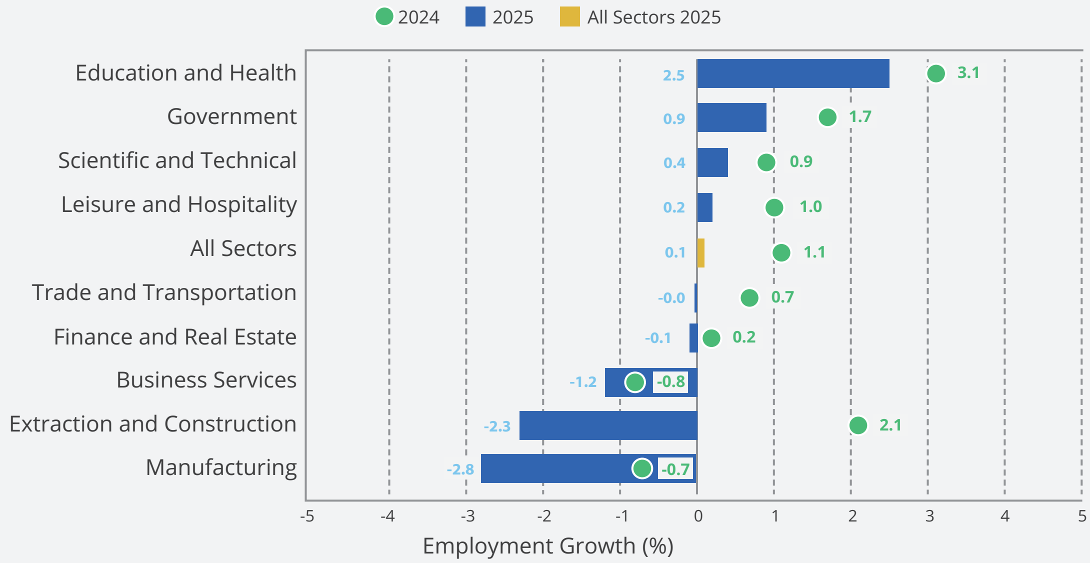
Data sources from the Census, Bureau of Labor Statistics and Bureau of Economic Analysis and estimates from the Kenan Institute and Fifth Third Bank.
The range of the national barometers is based on historical performance of U.S. measures since 1990.
For more information, visit kenaninstitute.unc.edu/american-growth-project.

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



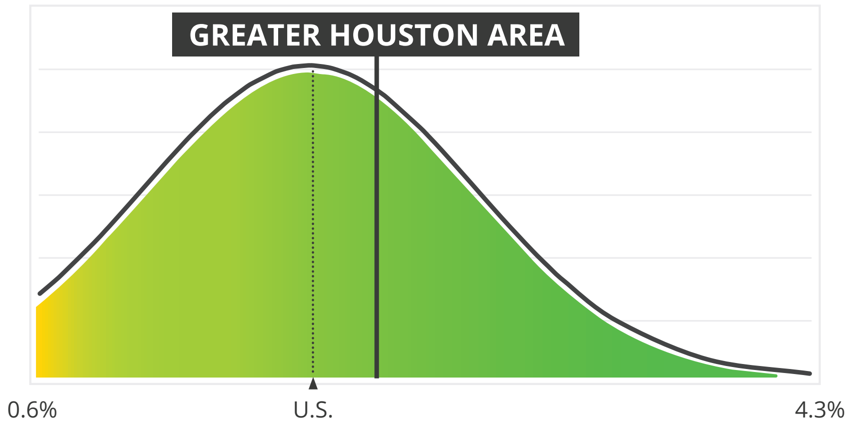
- The pace of hiring in 2025 is expected to slow meaningfully across the U.S. in all major sectors, with employment contracting in several sectors and net job growth of only 0.1% for the year.
- The Extraction and Construction sector is expected to experience the biggest slowdown, swinging from healthy 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.

GREATER HOUSTON AREA

Extended Metropolitan Area*

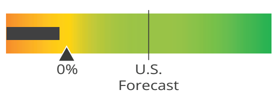
UPDATED AS OF FEBRUARY 2025

2025 GDP Growth
Distribution of 50 Largest EMAs



- The Greater Houston Area is projected to experience solid growth in overall economic activity in 2025.
- Compared with other large EMAs, Houston is in the top third, with projected GDP growth above the U.S. average.

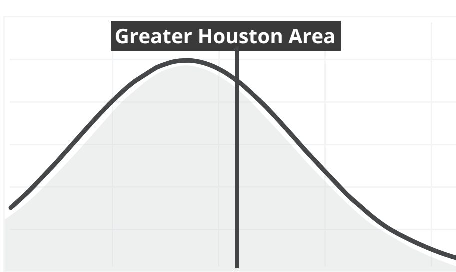
Supply Side (Employment)



Demand Side (Consumption)

- The Houston EMA has soft supply-side characteristics, with **limited expected job creation**, and moderate overall demand, as reflected in **average 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 work-force and productive industry mix tend to be situated at the distribution's high end and generate faster growth.*

- Houston's sectoral mix (*illustrated on Page 4*), demographic balance and migration patterns indicate a moderately strong potential growth engine.

Key Takeaways

1. Middling national growth and uncertainty around economic policy will pose challenges for Greater Houston, yet the EMA's highly productive Trade and Transportation sector constitutes a strength that will contribute to its solid economic growth outlook for 2025.
2. Job creation remains a challenge for Greater Houston in 2025, lagging behind many other major Southern cities, including Austin and San Antonio.
3. Like many EMAs across the U.S., Greater Houston is experiencing a housing shortage. Yet its moderate growth in housing permits suggests a more favorable outlook compared with other populous EMAs.

Outlook

Houston's economy is forecast for continued expansion, with GDP growth expected to surpass the national average. The key industries expected to drive growth include healthcare, energy, logistics and manufacturing. However, the region faces workforce challenges in sourcing adequate labor. The uncertain outlook of the U.S. economy amid global trade tensions presents additional hurdles for extraction, construction and manufacturing sectors. Despite these concerns, Houston's demo-graphic advantages and high-tech industry mix support long-term economic stability.

Joanna Mitchell Gonzalez
Houston Market Executive

** Counties included in analysis: Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Matagorda, Montgomery, Walker, Waller, Washing-ton, Wharton.*

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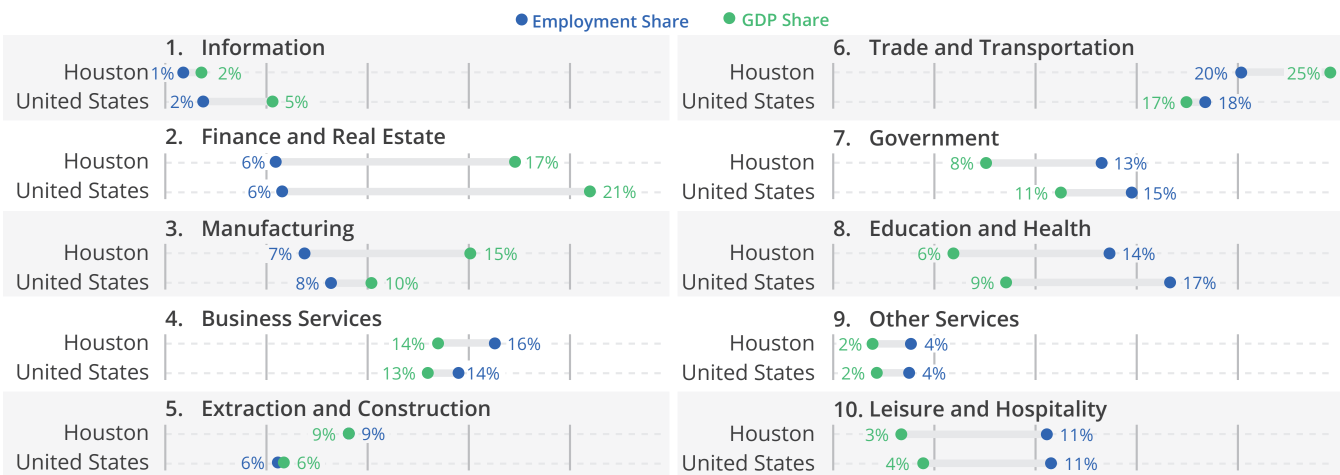
Challenges and Opportunities

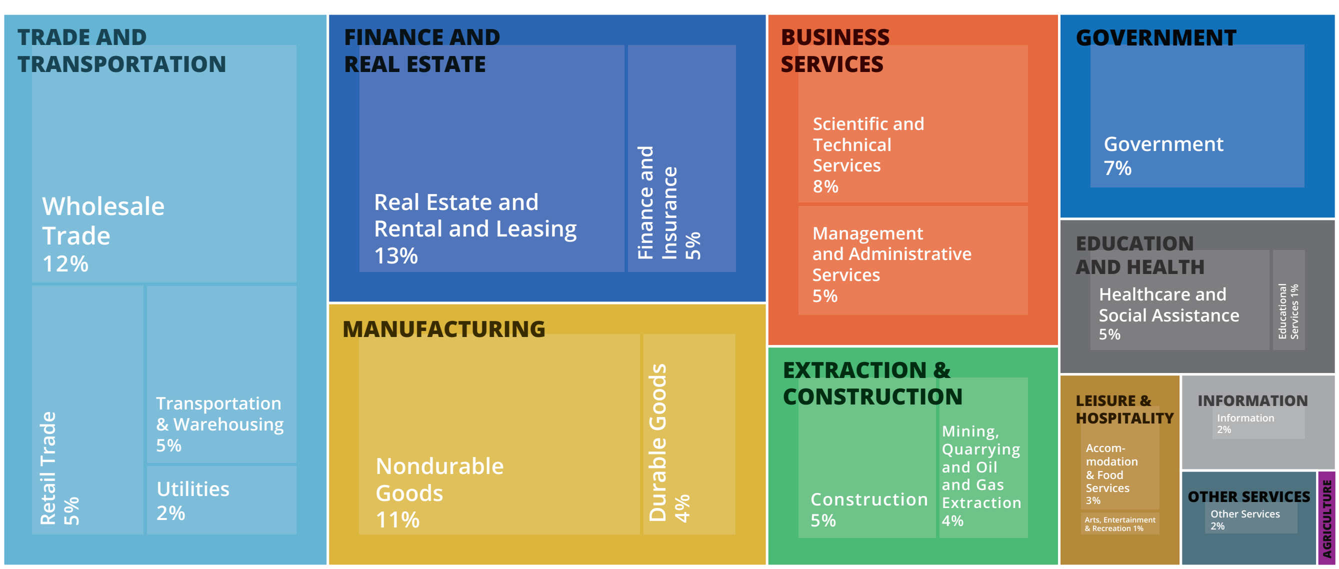
- **Challenge:** Greater Houston's highly productive Manufacturing sector is a regional strength, but its sensitivity to the business cycle could lead to struggles during the expected economic slowdown.
- **Opportunity:** A diverse economy, featuring sectors that are less affected by economic cycles, should enhance Greater Houston's resilience in 2025.
- **Challenge:** Houston's undersized Information sector highlights a missed opportunity to drive regional innovation and efficiency.
- **Opportunity:** In recent years, Houston has developed a robust innovation ecosystem and boosted venture capital investments. Additional investment, education and training will help the EMA fully leverage the Information sector's potential.

How Productive Are Houston's Industries?

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



Houston Sector GDP Share



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