

REGIONAL ECONOMIC SNAPSHOT

UPDATED AS OF JANUARY 2025

**EMPOWERING
AMERICAN CITIES**



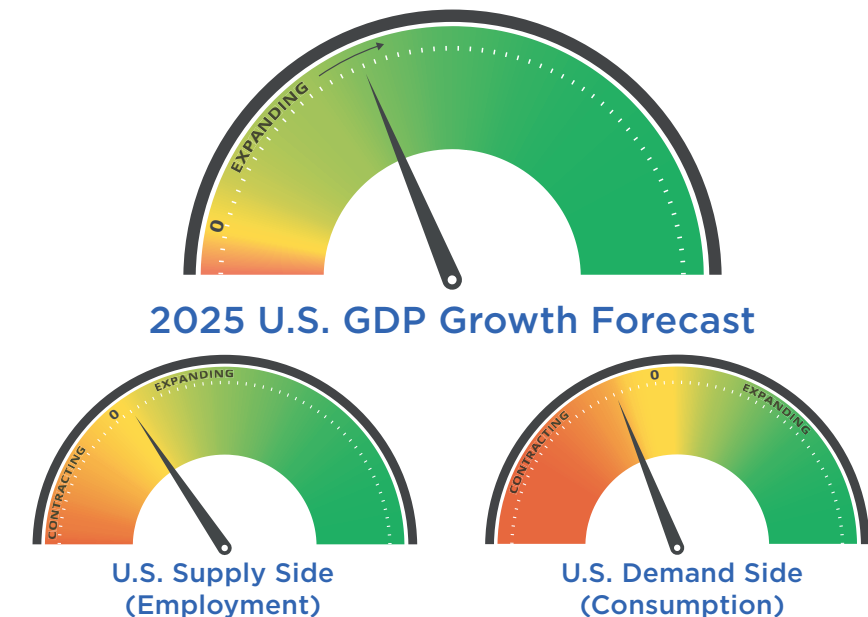
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In our base-case scenario, we expect slowing, middling growth in 2025, as interest rates and inflation remain elevated and federal policies drag on the national economy.

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.

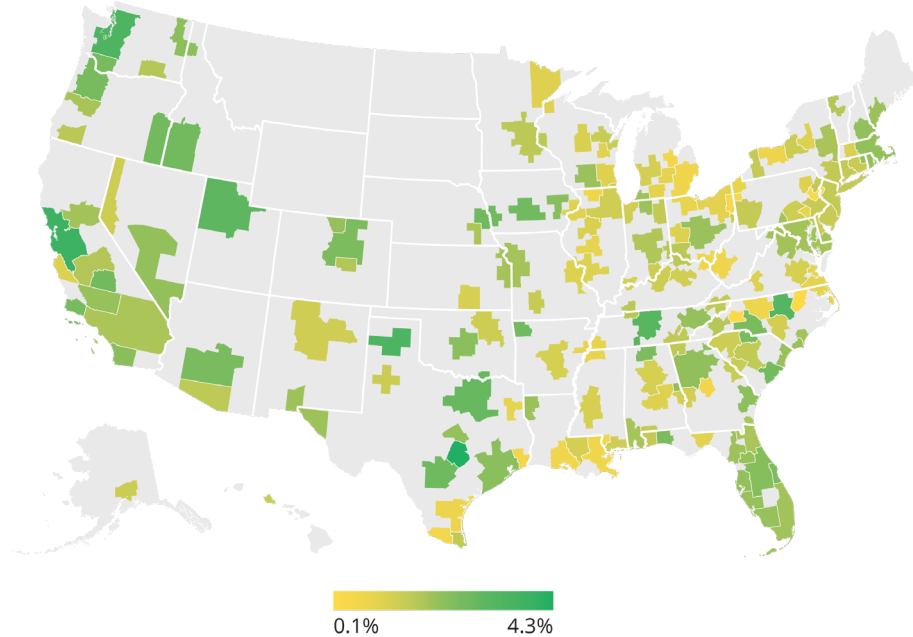
On the demand side, elevated interest rates, above-target inflation and slow-

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.

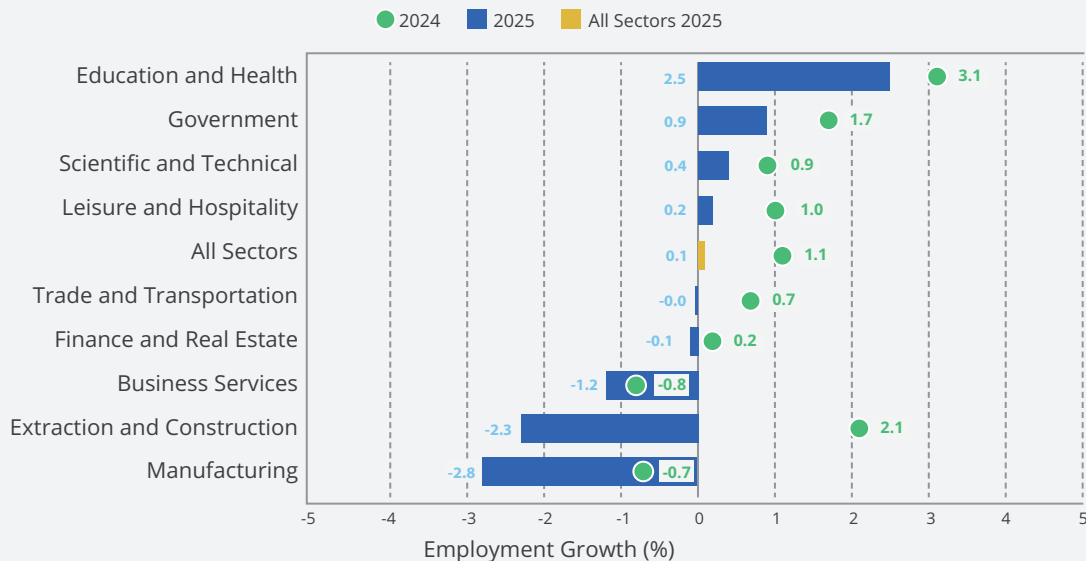
Data sources from the Census, Bureau of Labor Statistics and Bureau of Economic Analysis and estimates from the Kenan Institute and Fifth Third Bank. The range of the national barometers is based on historical performance of U.S. measures since 1990. For more information, visit kenaninstitute.unc.edu/american-growth-project.

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.

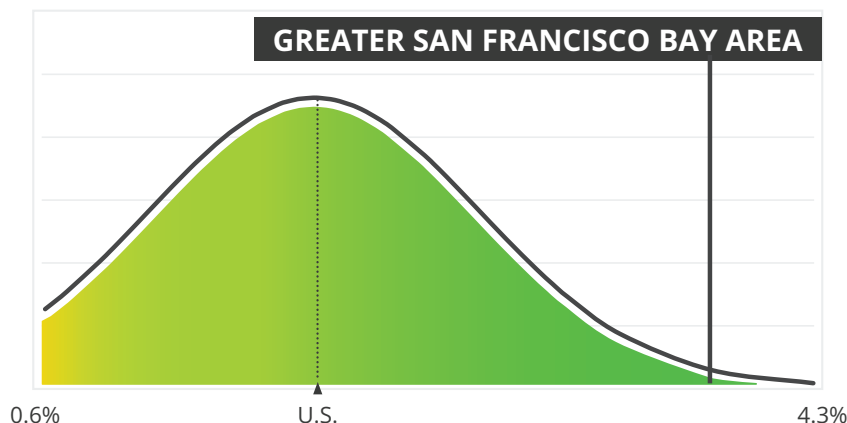
■ We expect continued slowing in Leisure and Hospitality, as pent-up demand from the pandemic years levels off and job growth flattens.

GREATER SAN FRANCISCO BAY AREA

Extended Metropolitan Area*

UPDATED AS OF FEBRUARY 2025

2025 GDP Growth
Distribution of 50 Largest EMAs



- San Francisco is projected to experience healthy growth in overall economic activity in 2025.
- Compared with other large EMAs, the Bay Area is among the top performers, with projected GDP growth well above the U.S. average, which is largely thanks to its excellent growth characteristics.

Supply Side (Employment)

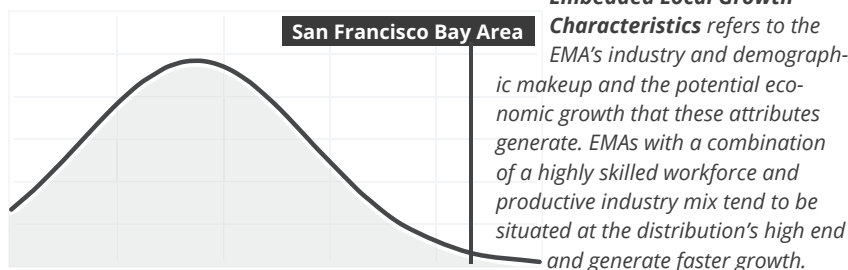


Demand Side (Consumption)



- The San Francisco EMA has moderate supply-side characteristics, with **middling expected job creation**, and soft overall demand, as reflected in **sluggish housing activity**.

Embedded Local Growth Characteristics



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

Key Takeaways

- Middling national growth and uncertainty around economic policy will pose challenges for the San Francisco Bay Area, yet the EMA's highly productive Information sector forms a bedrock of long-term economic health.
- Like most of the country, San Francisco faces a housing affordability challenge, a problem that affects a broad spectrum of residents across the EMA and which could worsen this year as the area exhibits sluggish housing starts.
- San Francisco has exceptionally strong growth characteristics, reflecting the area's highly educated population and favorable industry mix, which contributes to robust economic growth in the face of macroeconomic headwinds.

Outlook



The Greater San Francisco Bay Area leads with its robust tech industry and many of the nation's largest companies. High AI job postings highlight its role as an innovation hub. Efforts to bring employees back are revitalizing downtown, creating a more vibrant urban environment. However, challenges remain in attracting and retaining talent due to high living costs and scarce affordable housing. Since January 2024, job growth has stagnated, and key sectors like Information and Manufacturing have contracted, leading to a complex employment outlook that requires strategic solutions to address these issues.

Peter Grubele, Market Executive,
Northern California

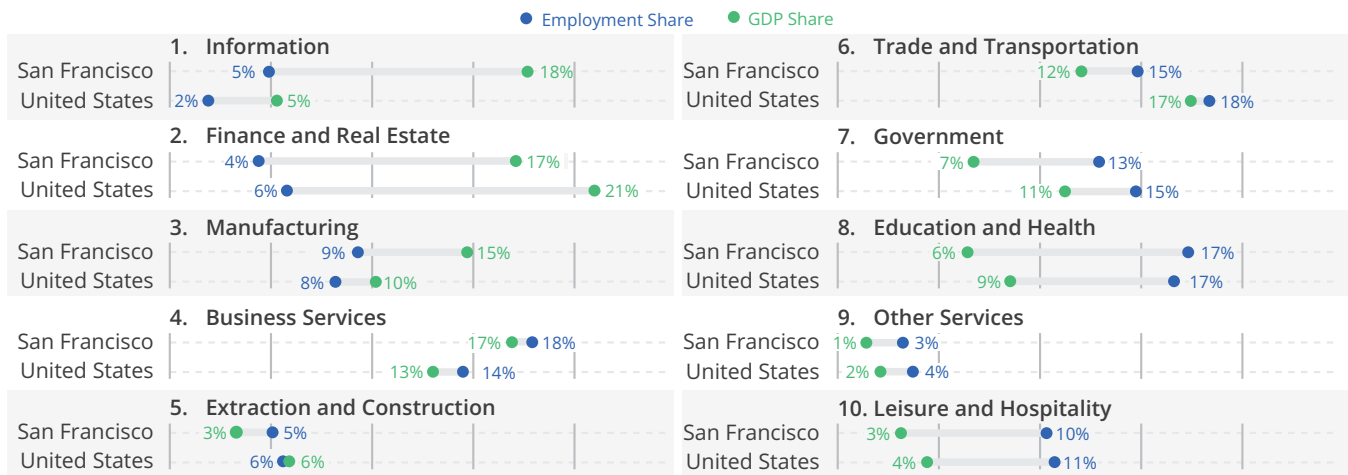
*Counties included in analysis: Alameda, Contra Costa, Marin, Merced, Napa, San Benito, San Francisco, San Joaquin, San Mateo, Santa Clara, Santa Cruz, Solano, Sonoma, Stanislaus.

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

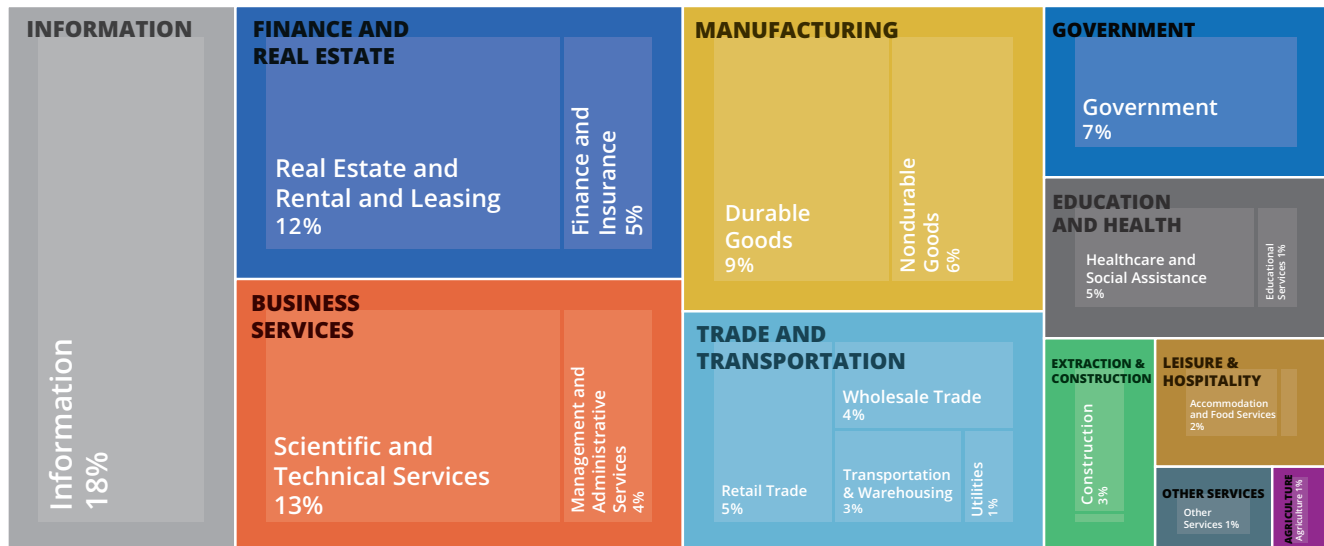
Challenges and Opportunities

- **Challenge:** The San Francisco Bay Area faces challenges in both its residential and commercial real estate markets. The high cost of housing prevents many middle- and lower-income households from owning homes, while the commercial office vacancy rate remains high.
- **Opportunity:** A global beacon for venture capital and home to 44 Fortune 500 companies, the Bay Area is a hotbed of entrepreneurship and an international hub of technology development, with rich veins of innovation to tap with investment.
- **Challenge:** Recent declines in tech employment as well as uncertainty around federal fiscal and immigration policies impose challenges for San Francisco Bay Area firms in hiring and investment decision-making.
- **Opportunity:** A premier destination for capital and the world's most sought-after talent, the San Francisco Bay Area's enviable economic engine is capable of powering growth through cyclical economic headwinds, ensuring the EMA remains fertile ground for investment for the foreseeable future.

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



San Francisco Sector GDP Share



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