

REGIONAL ECONOMIC SNAPSHOT

UPDATED AS OF JANUARY 2025

**EMPOWERING
AMERICAN CITIES**



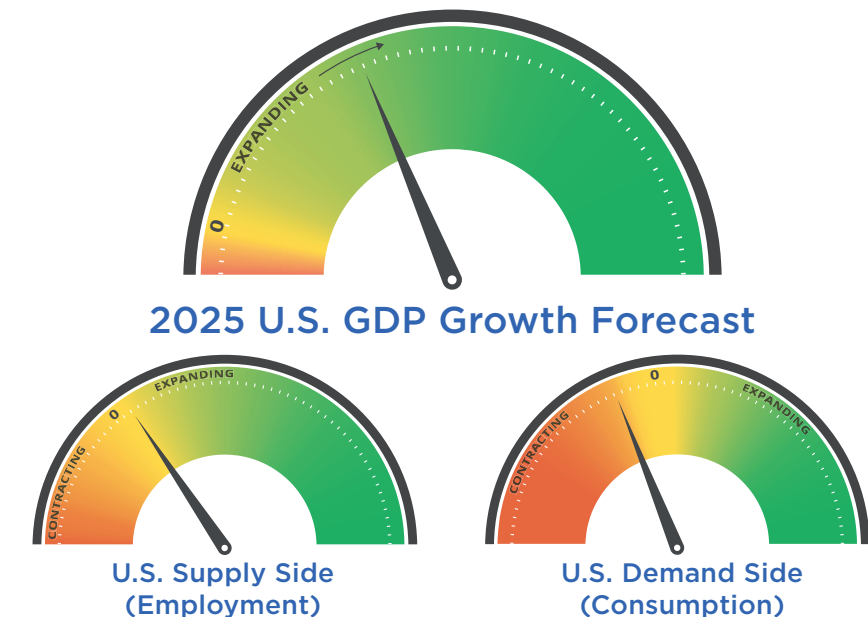
FIFTH THIRD / UNC KENAN INSTITUTE

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.

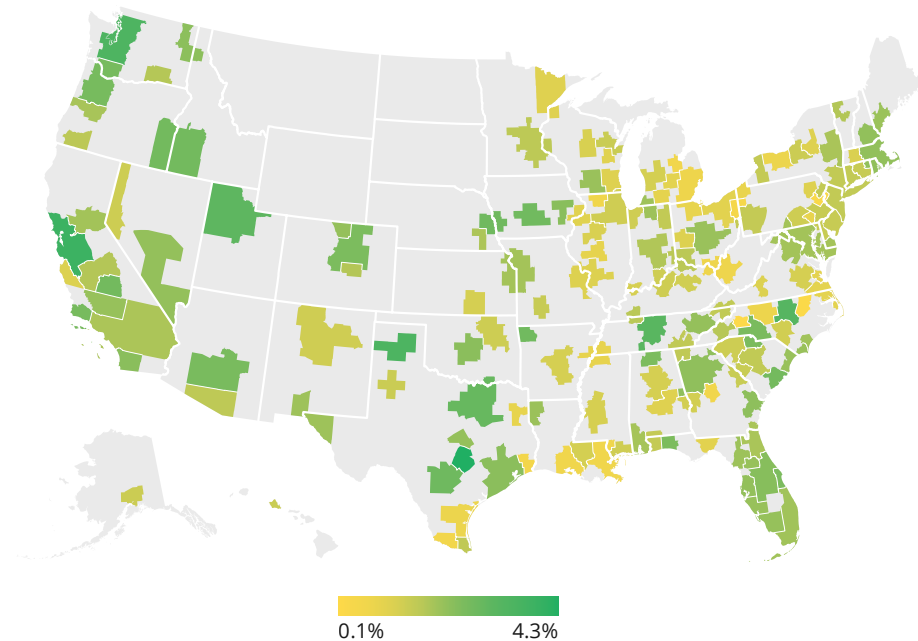
On the supply side, job creation is expected to slow meaningfully. Some sectors, notably Manufacturing, will experience job loss, while Education and Health will continue its expansion, albeit at a somewhat slower pace. The employment slowdown will weigh on wage growth, which should lessen price pressures.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

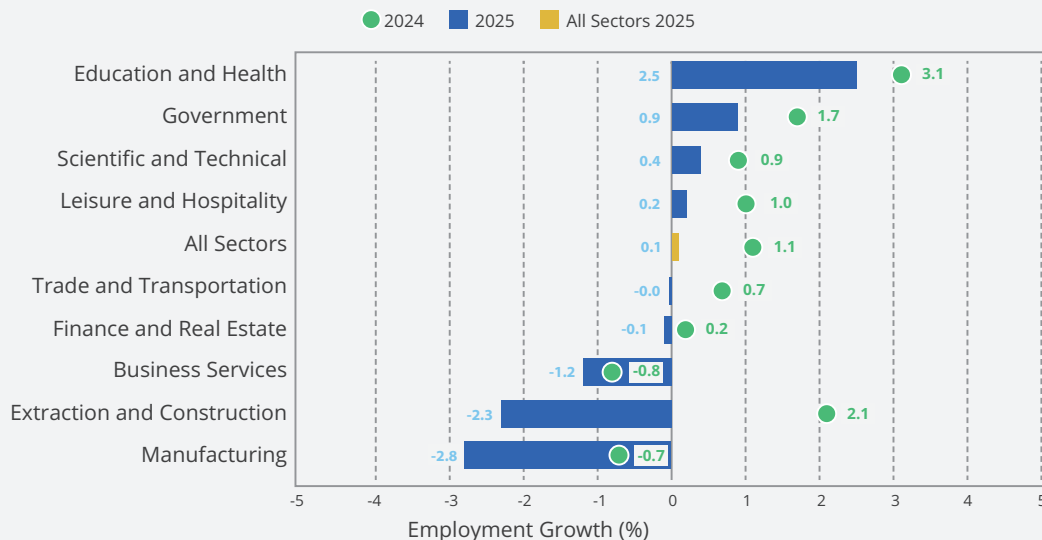
Heightened policy uncertainty means more risk and more potential outcomes; some policies may boost consumer and business sentiment – and thus spending and investment – in the near term. Both our base case (with new policies) and alternative scenarios (without them) project a “soft landing” – the base case reflects a less desirable path, yet it is still a largely benign outlook for 2025.

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.

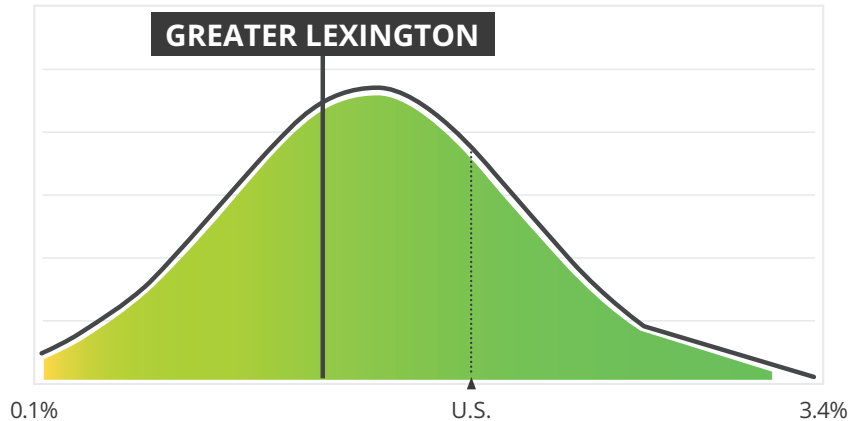
■ We expect continued slowing in Leisure and Hospitality, as pent-up demand from the pandemic years levels off and job growth flattens.

GREATER LEXINGTON

Extended Metropolitan Area*

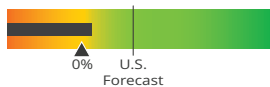
UPDATED AS OF FEBRUARY 2025

2025 GDP Growth
Distribution of 100 Midsize EMAs

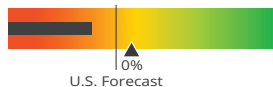


- Greater Lexington is projected to experience modest growth in overall economic activity in 2025.
- Compared with other midsize EMAs, Lexington is in the bottom half, with projected GDP growth below the U.S. average.

Supply Side (Employment)

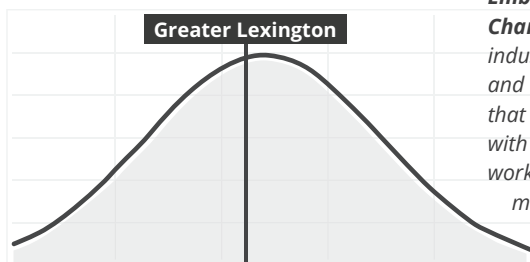


Demand Side (Consumption)



- The Lexington EMA has middling 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.

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

Key Takeaways

- Middling national growth and economic policy uncertainty will challenge Greater Lexington's Manufacturing Sector. Yet the area's innovative industry programs such as Lexington Manufacturing, Davis Park Workforce Center, and Advancing Kentucky Together Network create a resilient foundation for future prosperity.
- Home to the seat of state government in Frankfort, a large government workforce and many universities, the Lexington EMA's economy is exposed to federal funding cuts and regulatory uncertainty.
- The Lexington EMA's Information and Finance and Real Estate sectors are undersized relative to the national average, highlighting a need for additional investment in these highly productive industries.

Outlook



Fifth Third is proud to be part of a community focused on creating more employment opportunities across Central Kentucky's various industries.

We are committed to collaborating with organizations to stimulate economic growth and create jobs. Our partnership with Community Ventures has revitalized Millersburg, Kentucky, home to Mustard Seed Hill. By identifying these types of unique opportunities and developing innovative solutions, we are transforming how we live, work and play. Fifth Third's investment in Greater Lexington remains strong because we believe in uplifting our diverse and dynamic business community.

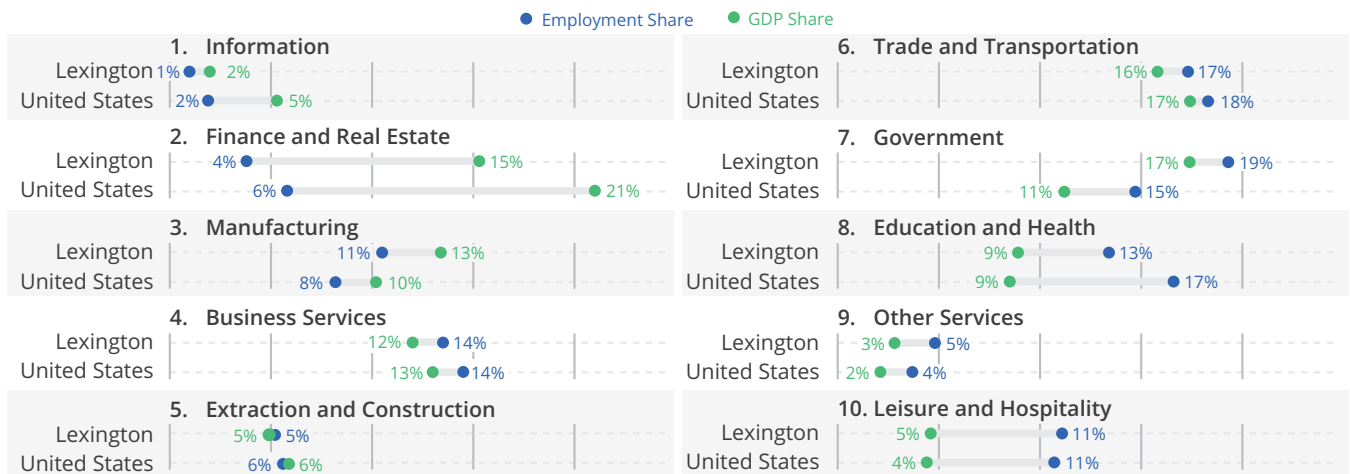
*Mary-Alicha Weldon,
Lexington City President*

Challenges and Opportunities

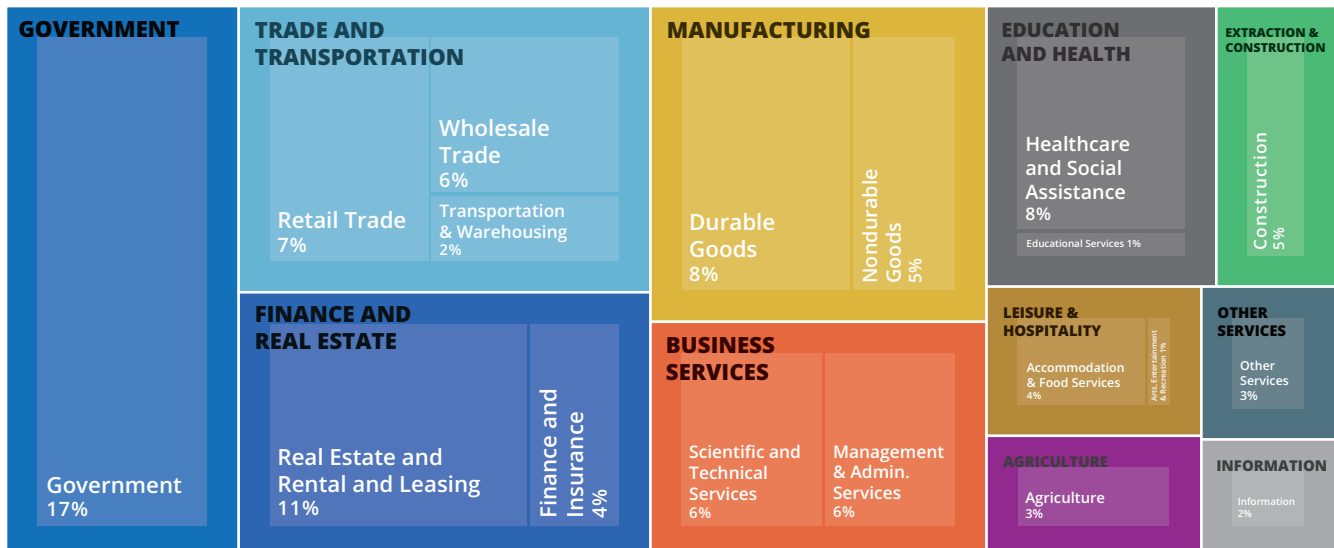
- Challenge:** Lexington has a housing shortage that puts inflationary pressure on consumers and is a challenge for businesses vying to attract talent to the area.
- Opportunity:** Boasting an abundance of land and mounting public will to invest in affordable housing, Lexington has prime opportunities to streamline smart investments in new housing developments. Meanwhile, the EMA's diverse mix of manufacturing plants, including luxury brands like Tiffany & Co., locally headquartered industrial machine maker Big Ass Fans, and Toyota's largest global manufacturing center, will supply sought-after careers for the foreseeable future.
- Challenge:** The Lexington EMA has a disproportionately small yet productive Education and Health workforce, which may indicate a shortage of medical professionals, since productivity is calculated as output per worker.
- Opportunity:** With an expanding population base and excellent healthcare facilities, Lexington has opportunities for investments in the area's healthcare industries, expanding a stable sector that tends to exhibit sustained growth.

How Productive Are Lexington's Industries?

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



Lexington Sector GDP Share



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