Economic Outlook: Resilient, at Least for Now

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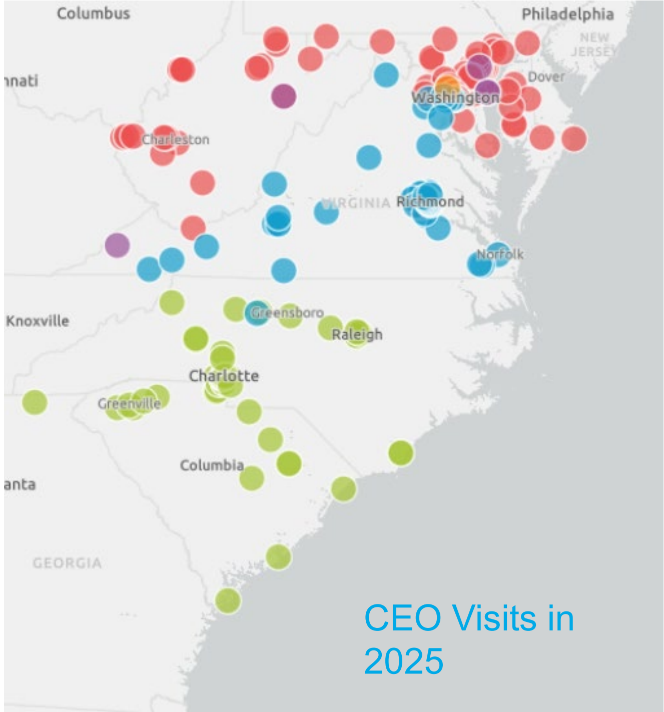
How Our Community Helps Us Understand the Economy

- **Conversations with business leaders:**
  - Offer **real-time insights**, complementing backwards-looking data that are revised multiple times, and
  - Provide **early signs of turning points** in the economy

- **2025 by the Numbers:**
  - Our team spoke with nearly **4,000 business and community leaders,** including more than 400 sit-downs with more than 300 firms.
  - Approximately **50 percent** of external engagement touched on **rural topics**.



What Are Fifth District Businesses Saying?

- Lessons from On-the-Ground Conversations (Mid-June to Mid-July)

Demand? Largely "Fine"
Divergent spending trends between high- and low-income consumers continued

Sustained Spending Took Strategy
Consumers delayed paying some bills, saved less, made short-term repairs

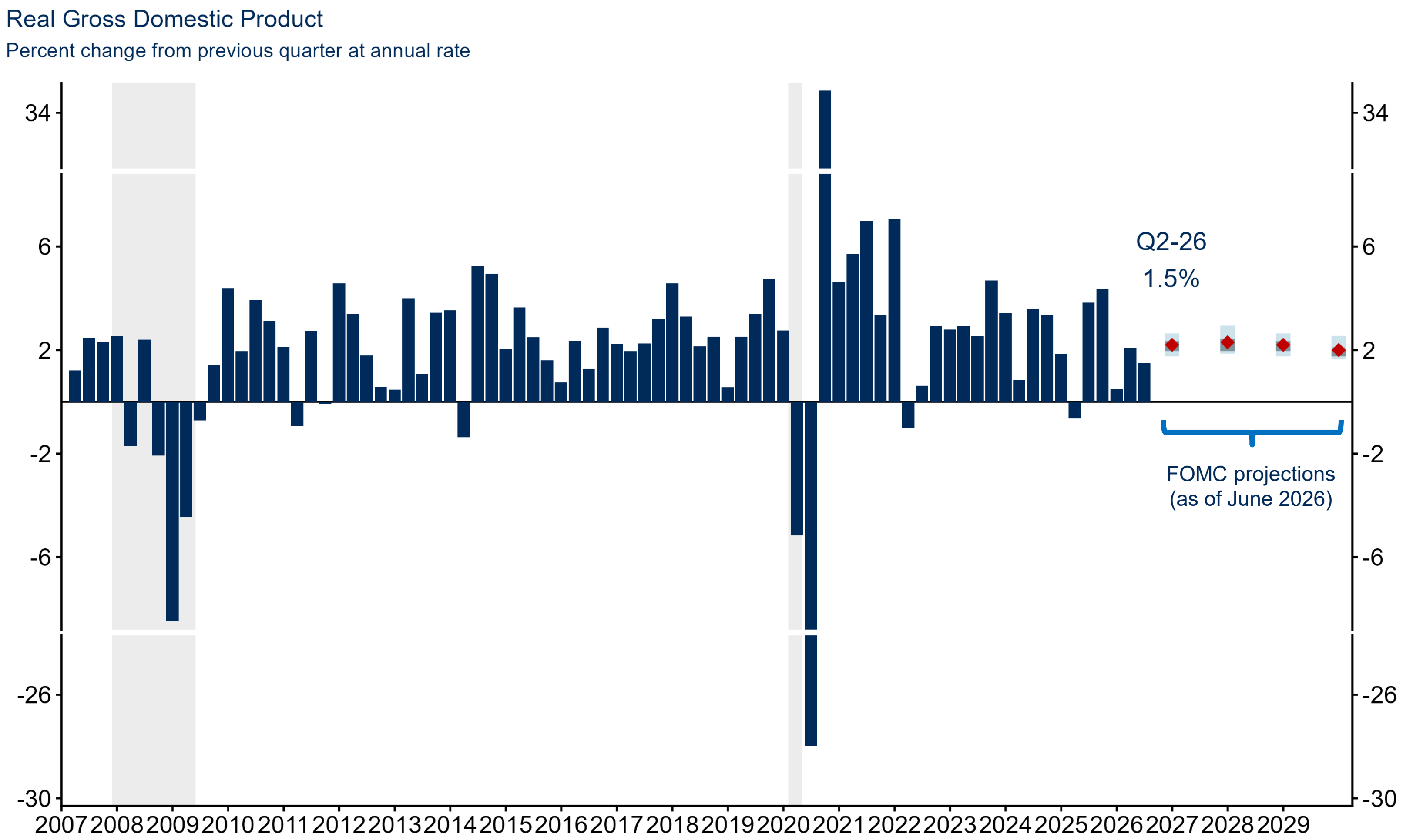
Uncertainty Seen as New Normal
Many firms moved ahead with decisions; a few stalled amid renewed uncertainty

Flat Headcount Expected This Year
The majority of firms expected to keep similar staffing levels to meet demand

Conflict-Related Costs Continued
Transportation costs, including shipping freight, and trucking rates remained high

Some Customers "Numb" to Hikes
Some firms selling to businesses and high-income reported easy pass-through

GDP growth okay in Q2 and is expected to hold up well



Source: Bureau of Economic Analysis via Haver Analytics & Federal Reserve Board

Note: Projection is the median, central tendency, and range from the June 2026 Summary of Economic Projections. Red dots indicate median projections. Projections of change in real gross domestic product (GDP) are from the fourth quarter of the previous year to the fourth quarter of the year indicated.

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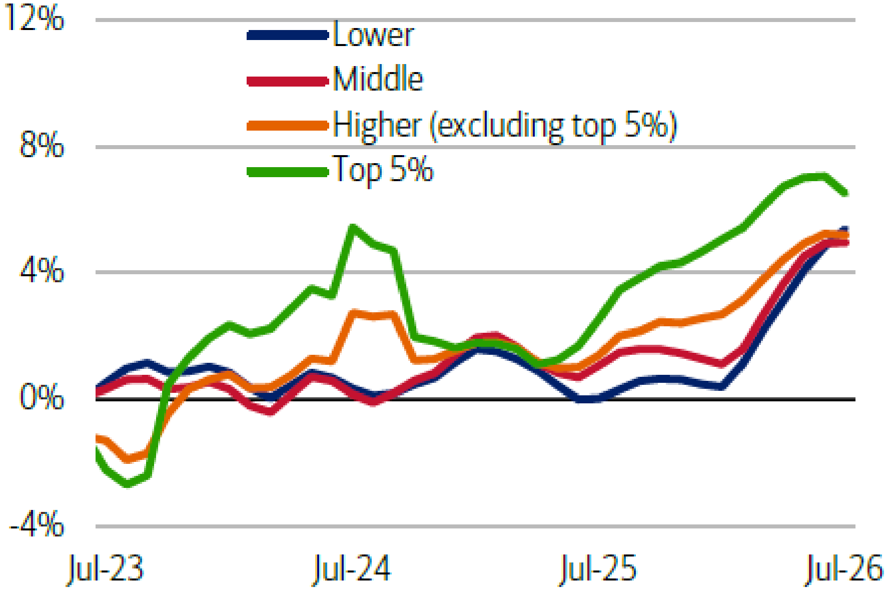
B of A says the "K" in spending and wage growth "continues to narrow" …

Exhibit 5: Total card spending converged further across income groups in July

Total card spending per household by income terciles and the top 5% (three-month moving average, YoY%, SA)



Source: Bank of America internal data

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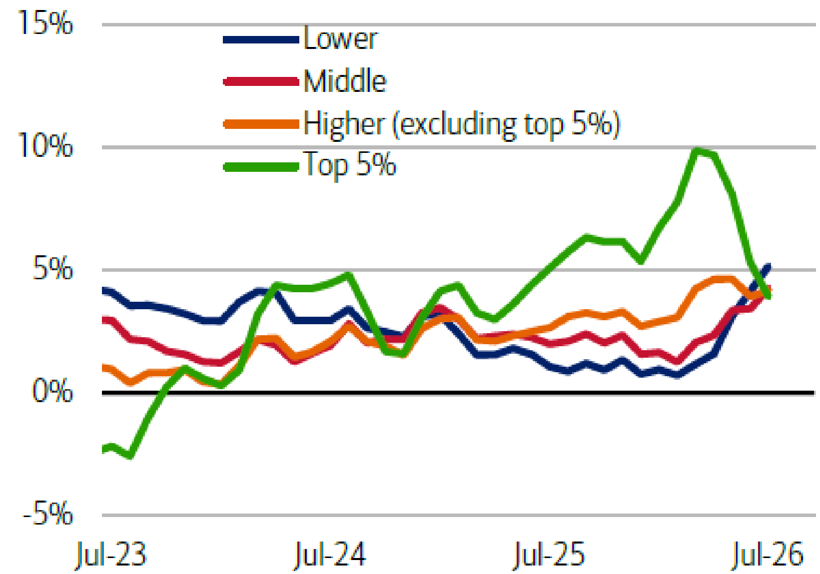
Exhibit 7: In July, after-tax wage growth for lower-income households surpassed that of higher-income for the first time since December 2024

After-tax wage and salary growth by household income terciles (three-month moving average, YoY%, SA)



Source: Bank of America internal data

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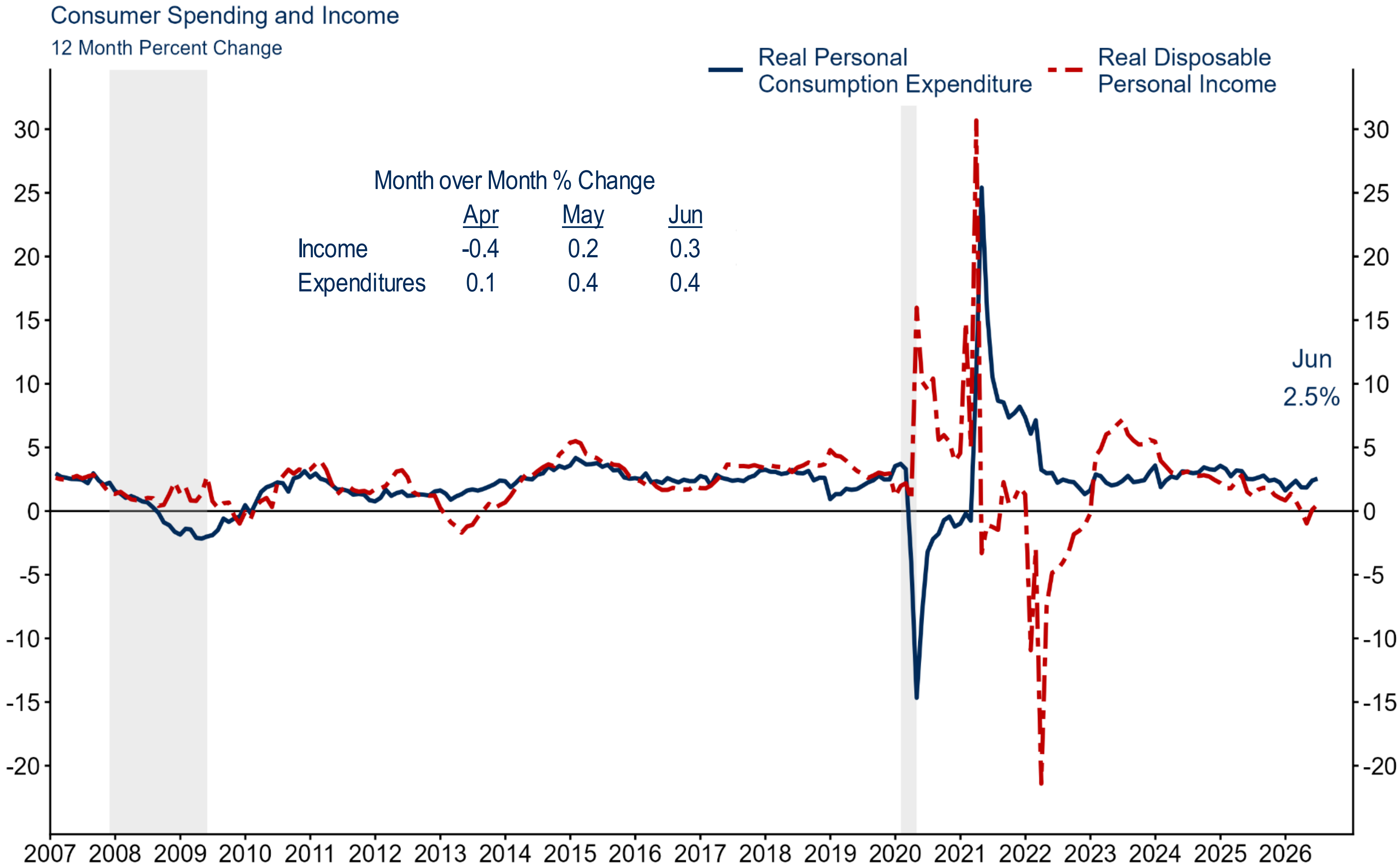
Real income growth lags real spending growth



Note: Income has been adjusted to account for temporary fiscal actions in 2008 and 2012-2013.

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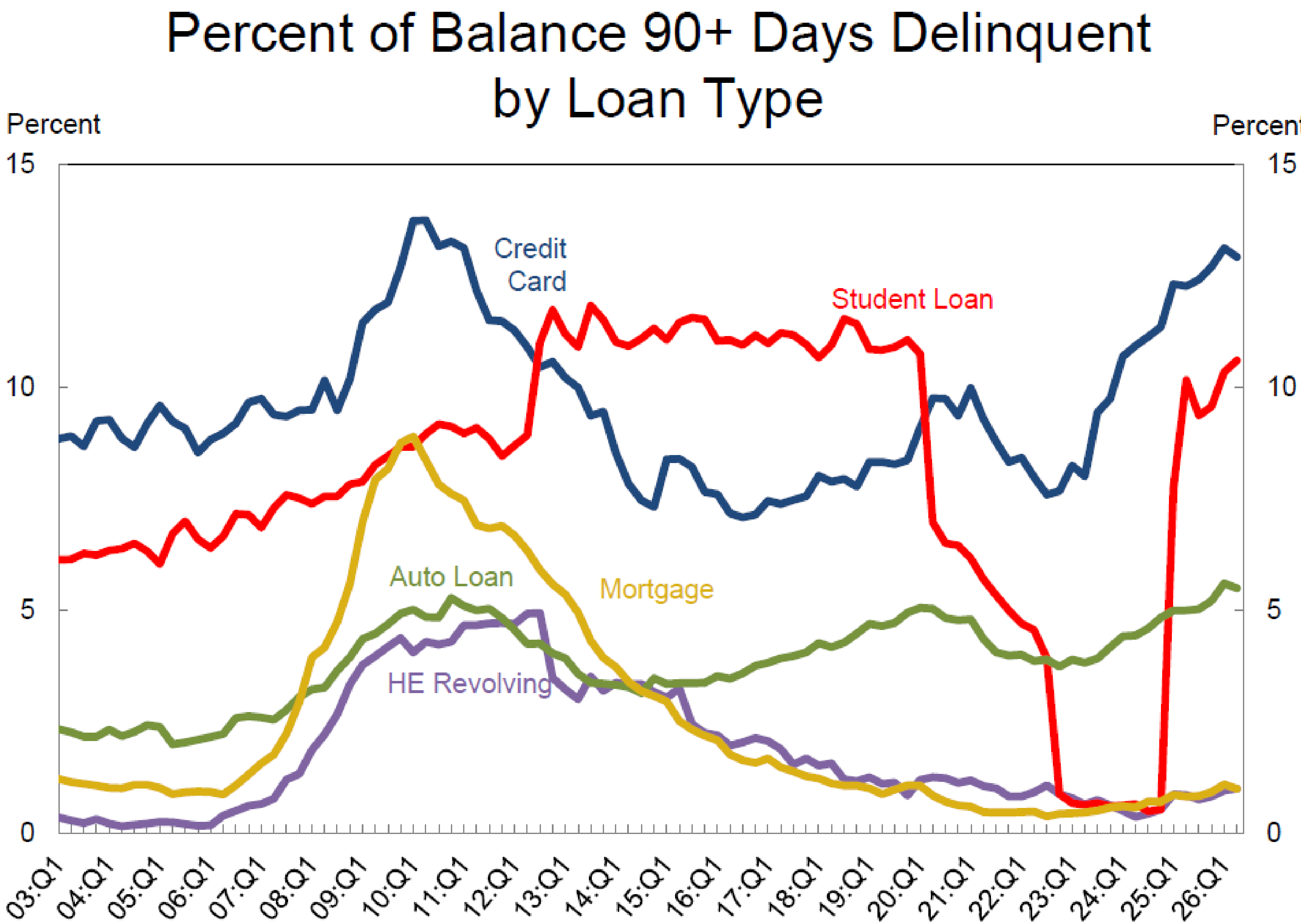
Source: Bureau of Economic Analysis via Haver Analytics

… but consumer stress shows in credit markets



Source: New York Fed Consumer Credit Panel/Equifax

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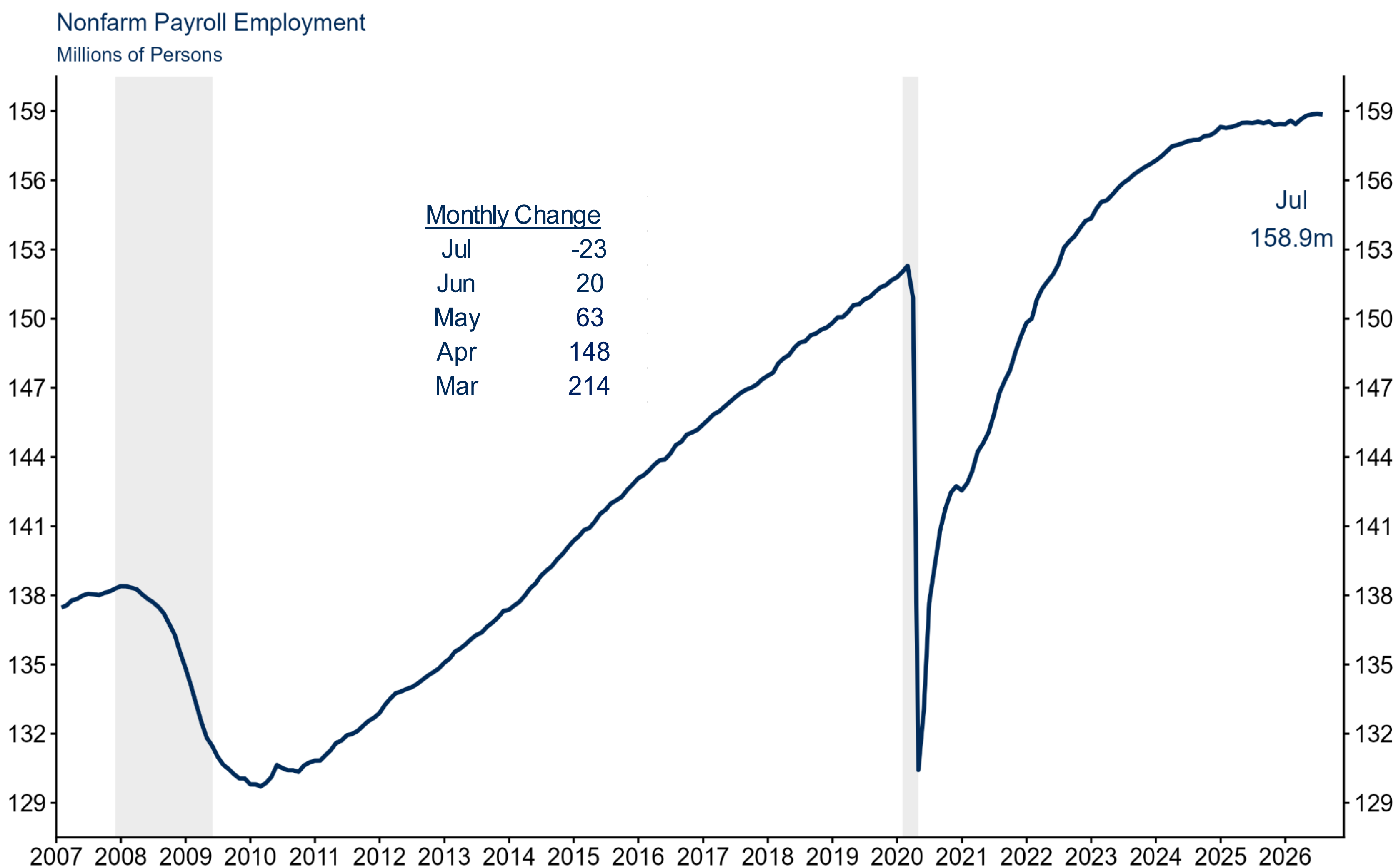
Recent job growth has been anemic



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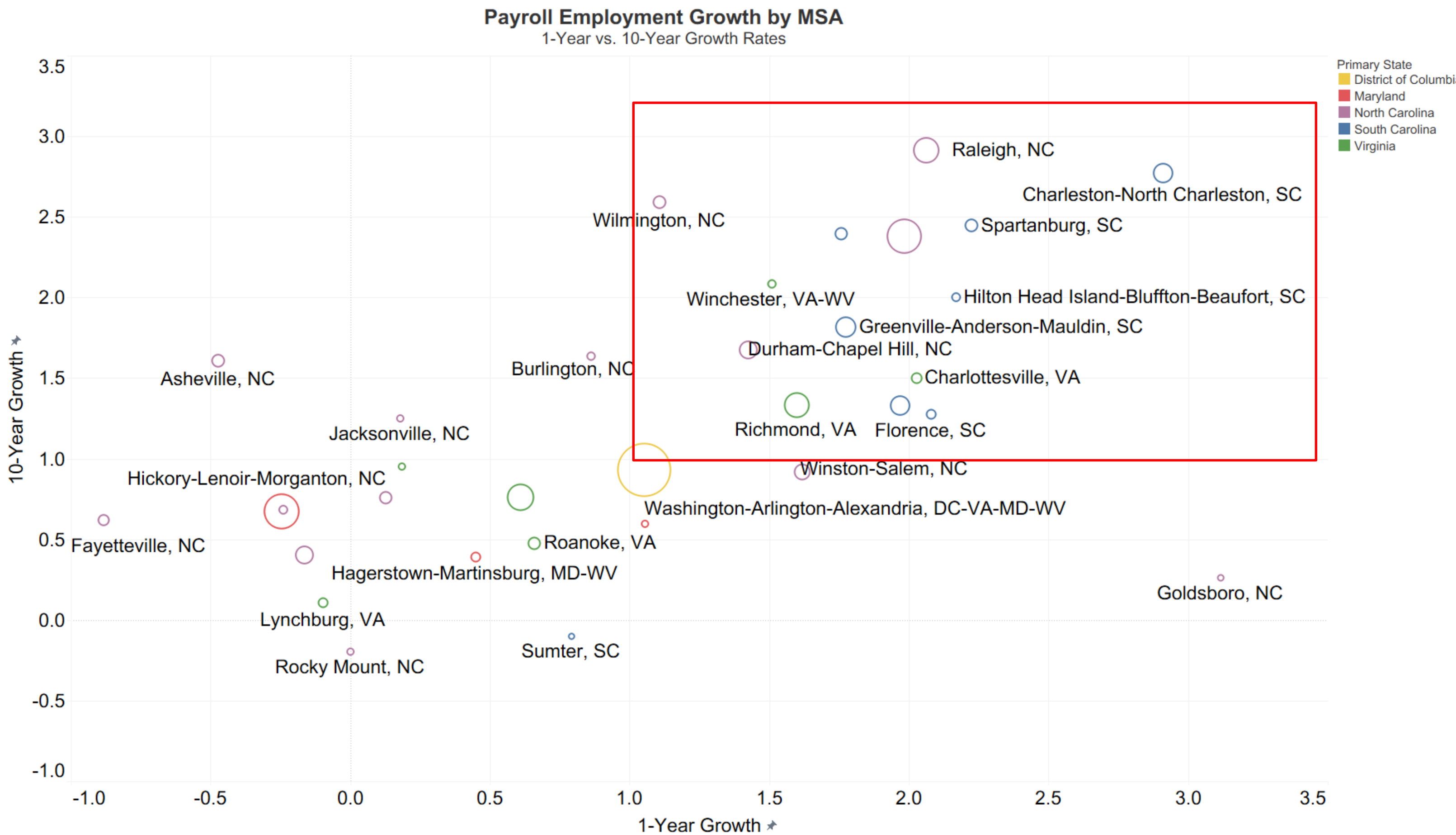
Source: Bureau of Labor Statistics via Haver Analytics

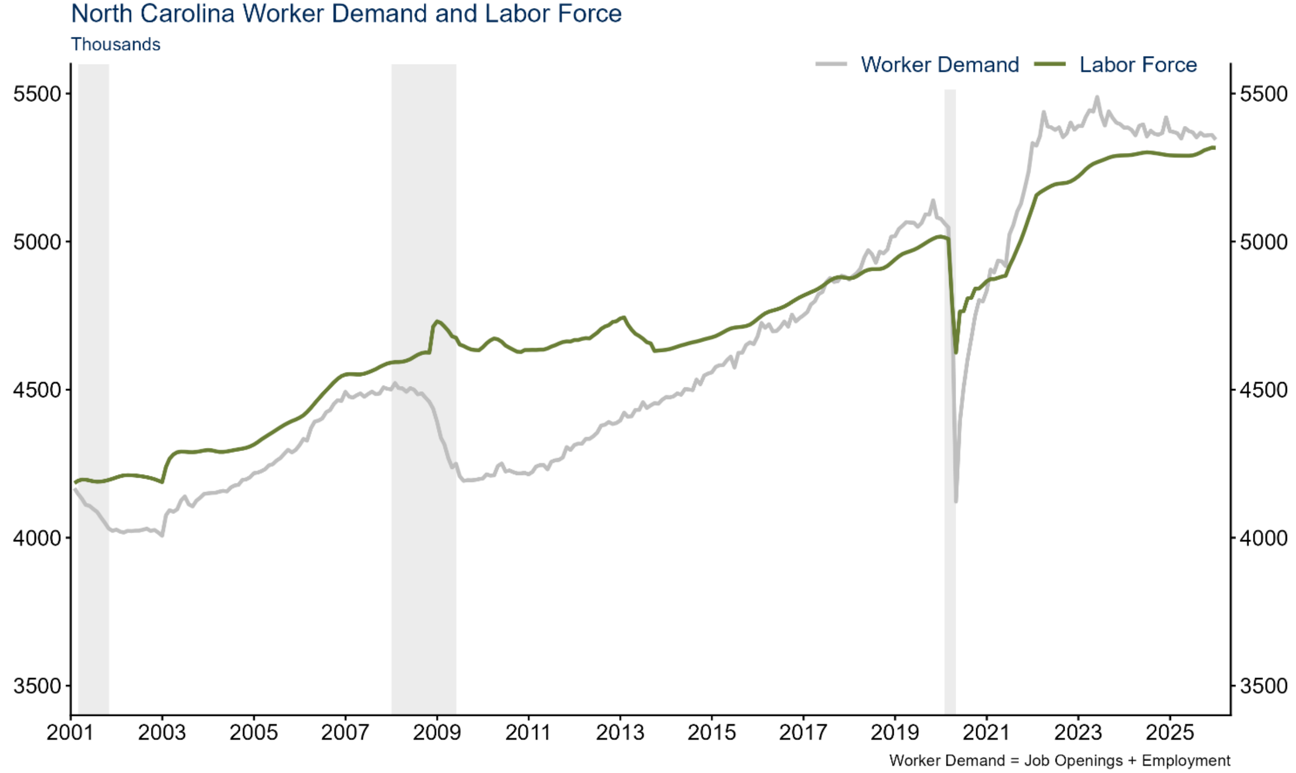
Carolina MSAs see solid growth, for the most part



Sum of 1-Year Growth (MSA Payroll Bubble Chart Data for Tableau) vs. sum of 10-Year Growth (MSA Payroll Bubble Chart Data for Tableau). Color shows details about Primary State (MSA Payroll Bubble Chart Data for Tableau). Size shows sum of Level of Employment (000s) (MSA Payroll Bubble Chart Data for Tableau). The marks are labeled by MSA (MSA Payroll Bubble Chart Data for Tableau). The data is filtered on MSA, which excludes New Bern, NC. The view is filtered on Primary State (MSA Payroll Bubble Chart Data for Tableau), which keeps District of Columbia, Maryland, North Carolina, South Carolina and Virginia.

Source: Bureau of Labor Statistics/ Haver Analytics

Worker Demand still outpacing the labor force in NC



Source: Bureau of Labor Statistics/ Haver Analytics

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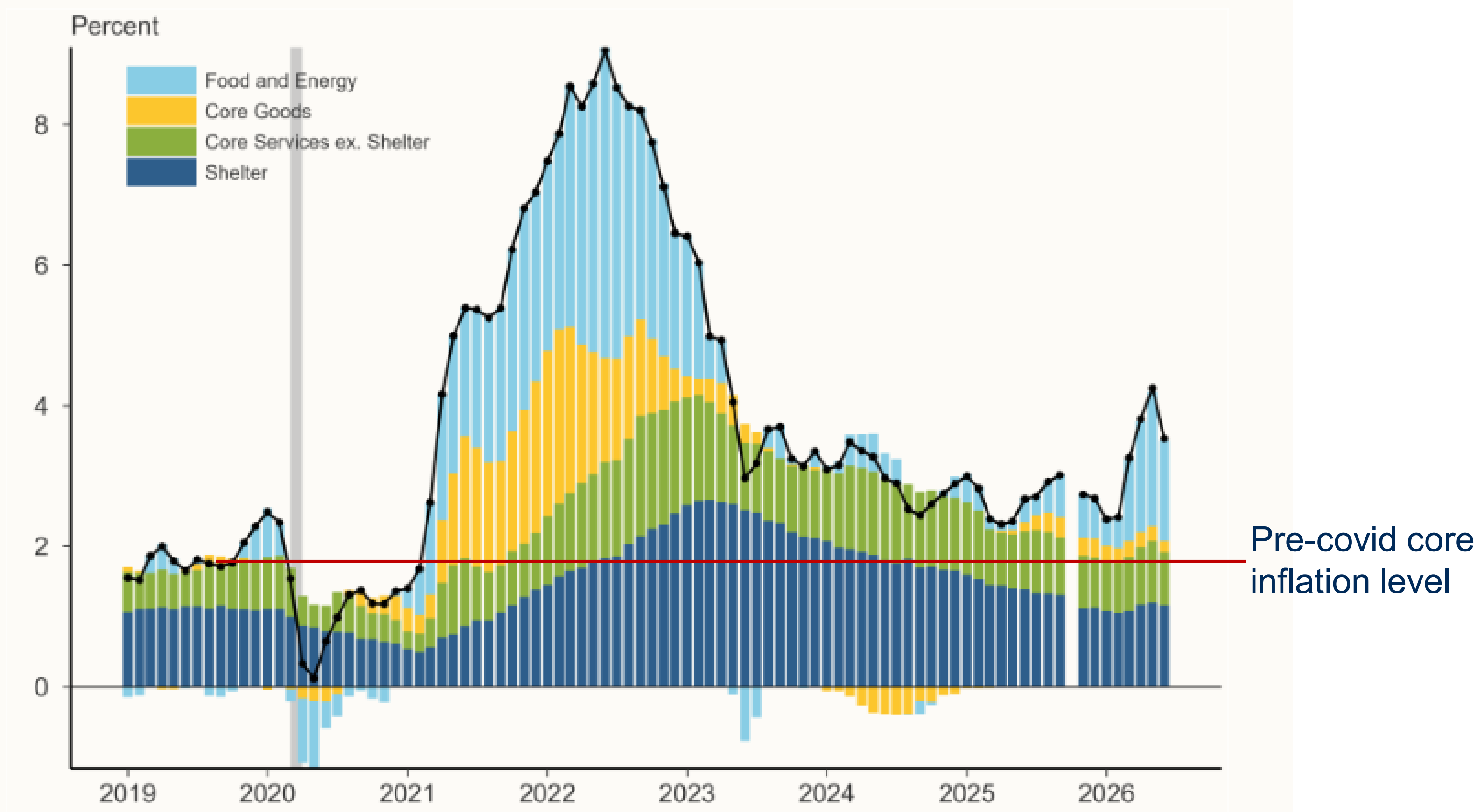
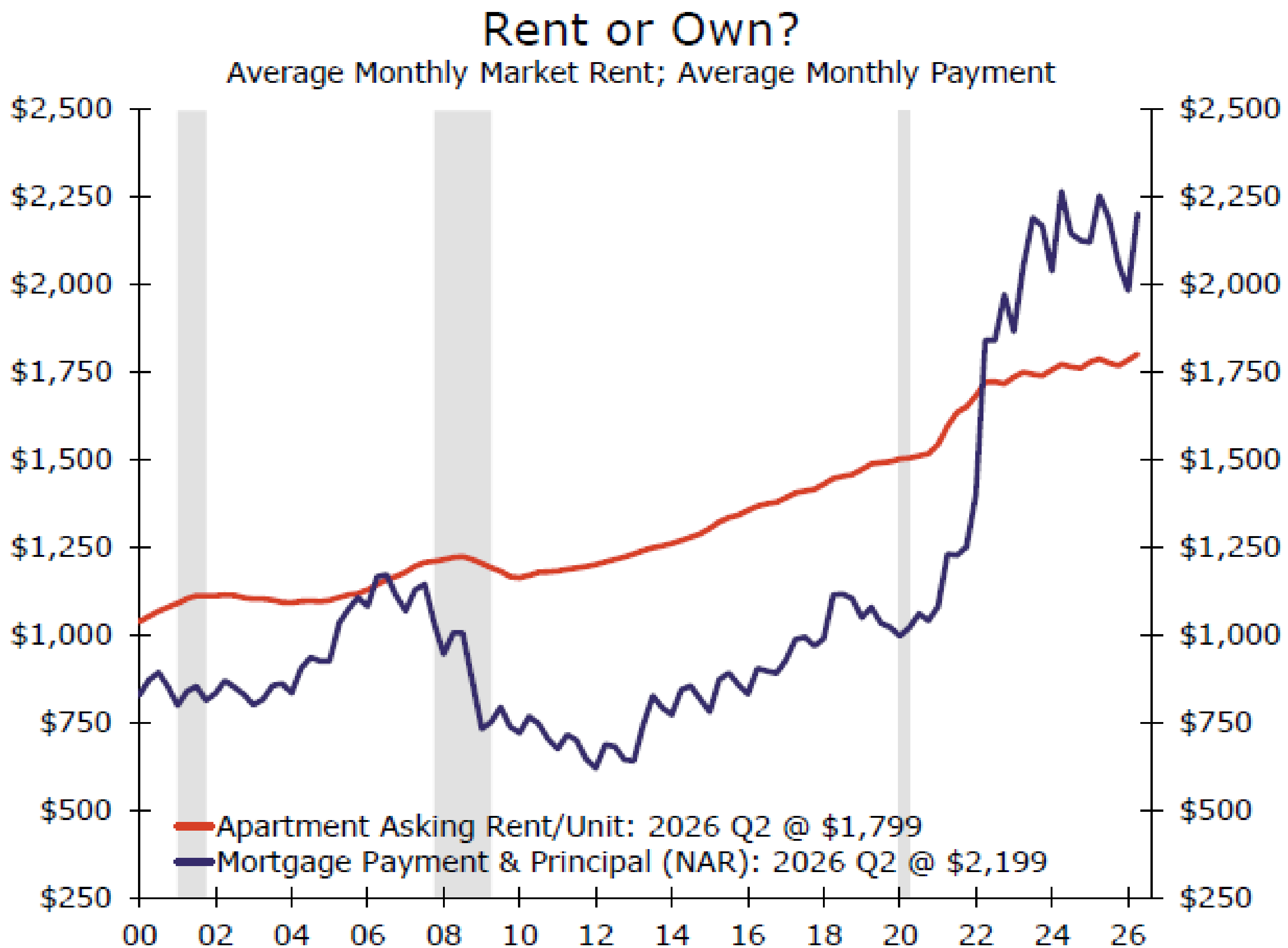
CPI components all adding to inflation

Figure 2: Contributions to 12-month headline CPI inflation (year-over-year, not seasonally adjusted)



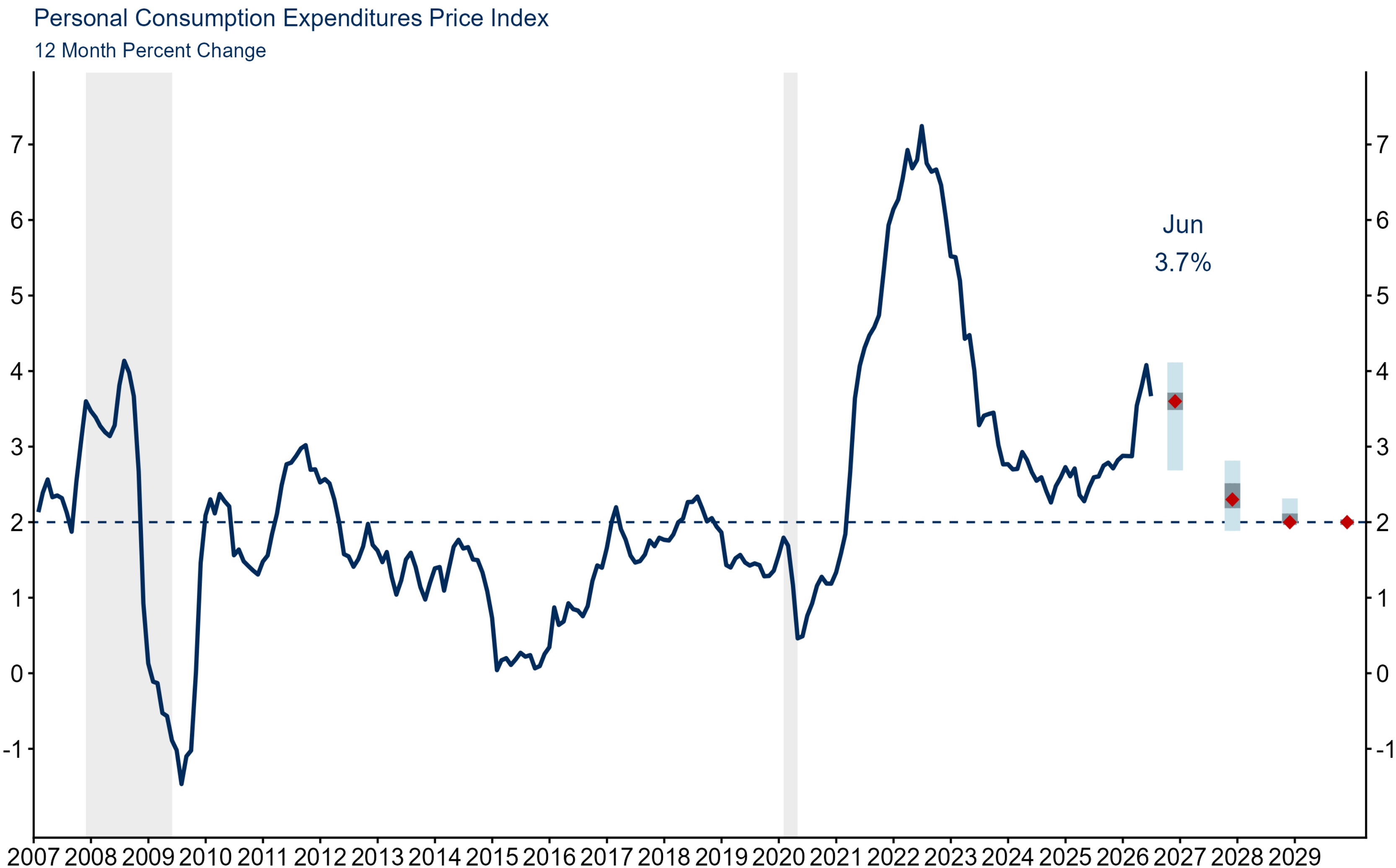
Source: Bureau of Labor Statistics via Haver Analytics and FRBSF staff calculations. Gray shading indicates NBER recession dates. Solid black line is the 12-month headline CPI inflation rate.

MF affordability suggests a preference shift



Source: NAR, CoStar Inc. and Wells Fargo Economics

Inflation remains above the Feds 2% target



Notes: FOMC projection is the median, range, and central tendency for Q4/Q4 percent changes, from the June 2026 meeting. Red dots indicate median projections.

Source: Bureau of Economic Analysis via Haver Analytics

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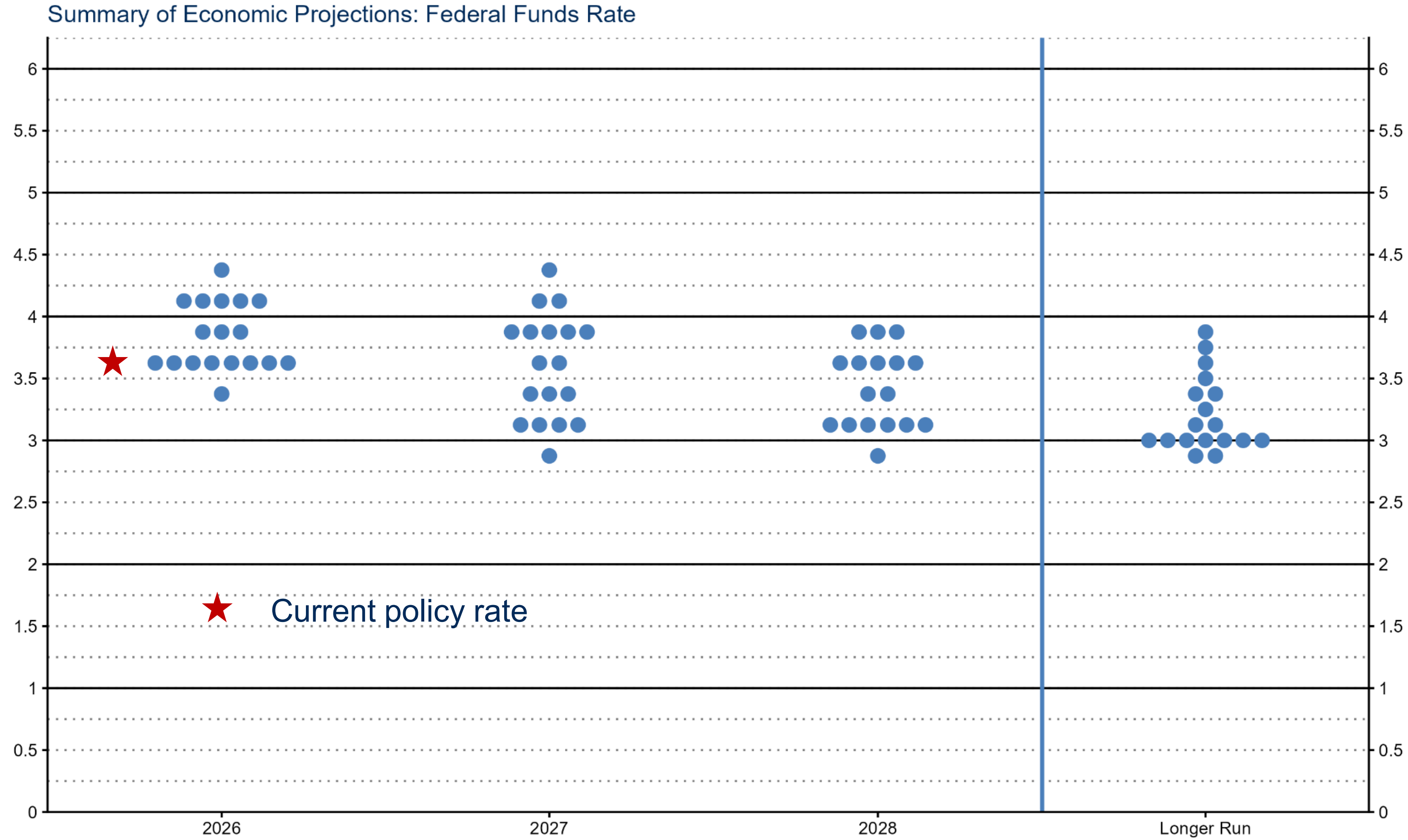
Policy is in the neighborhood of “neutral”



Note: Each dot in the chart represents the value of an FOMC participant’s judgment of the midpoint of the appropriate target range (or the appropriate target level) for the federal funds rate at the end of the calendar year. Projections made during the June 2026 meeting.

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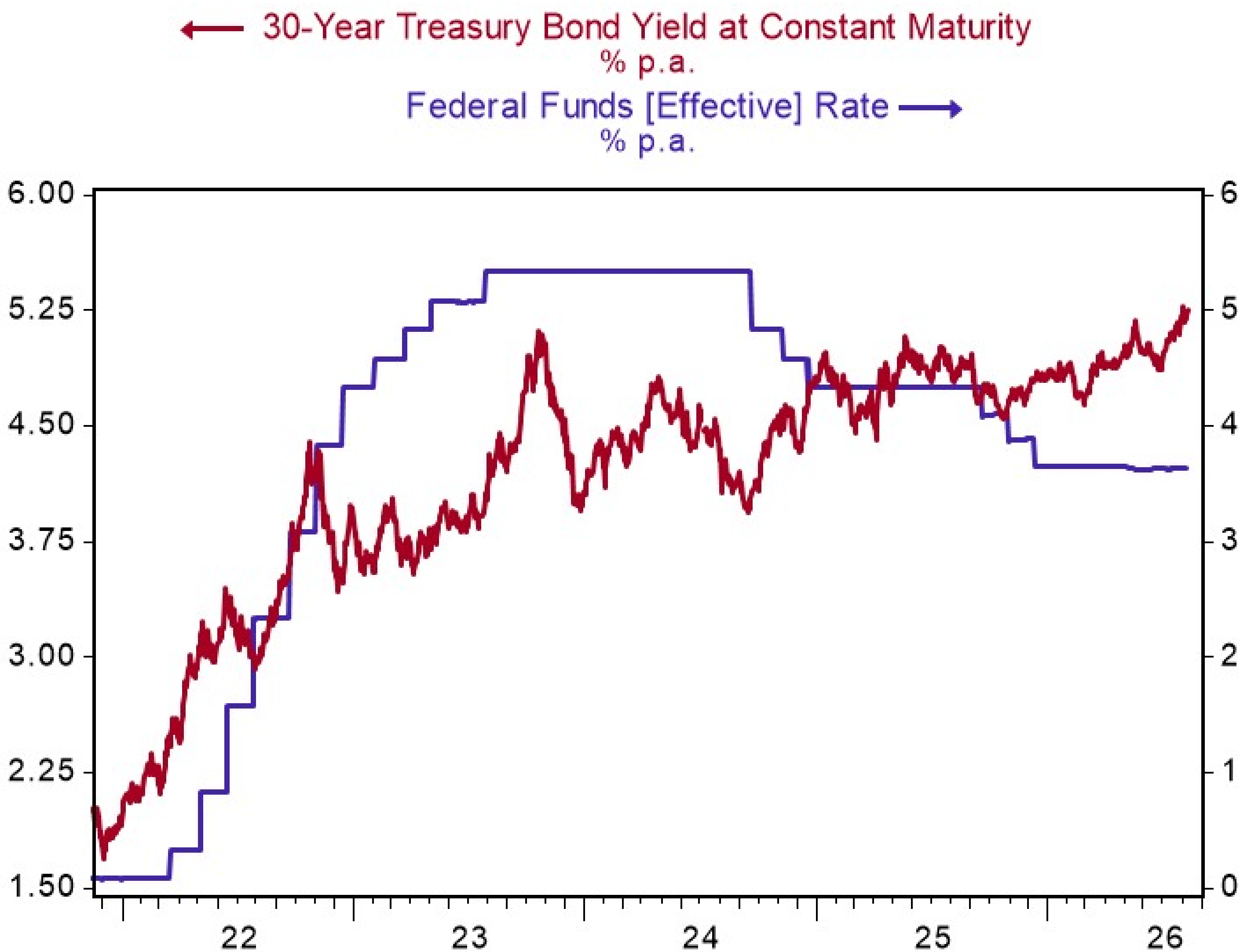
ST and LT rates continue to diverge



Source: Federal Reserve Board/Haver Analytics

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Thank you!

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