“Economic Update & Bank Performance”
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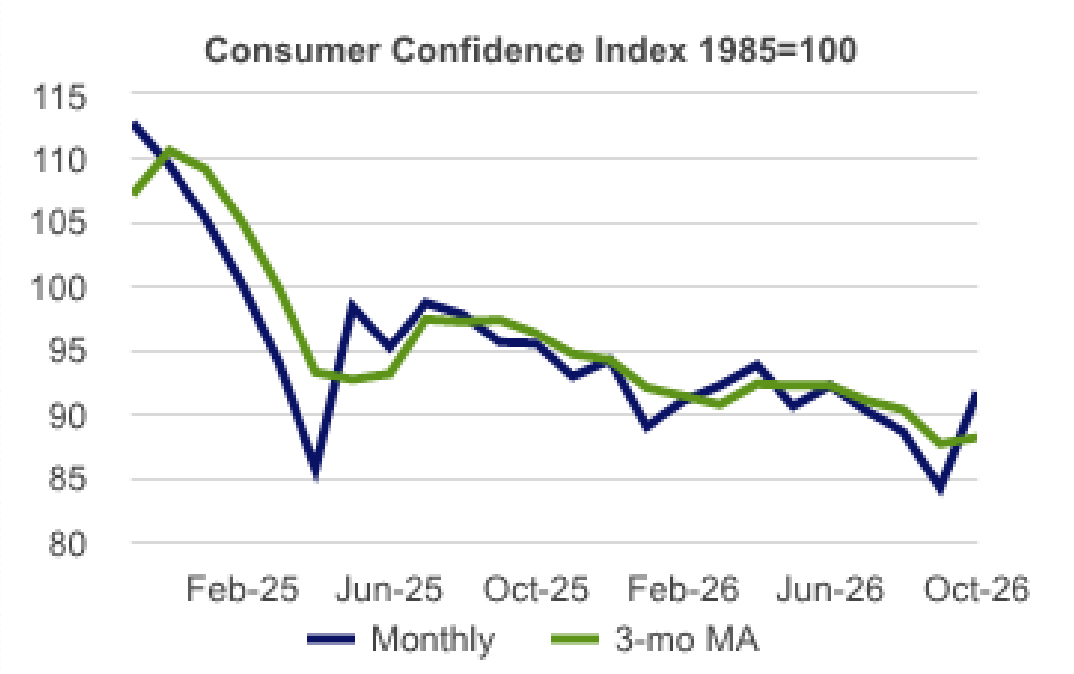
NCBANKERS
NORTH CAROLINA BANKERS ASSOCIATION

The U.S. Economy

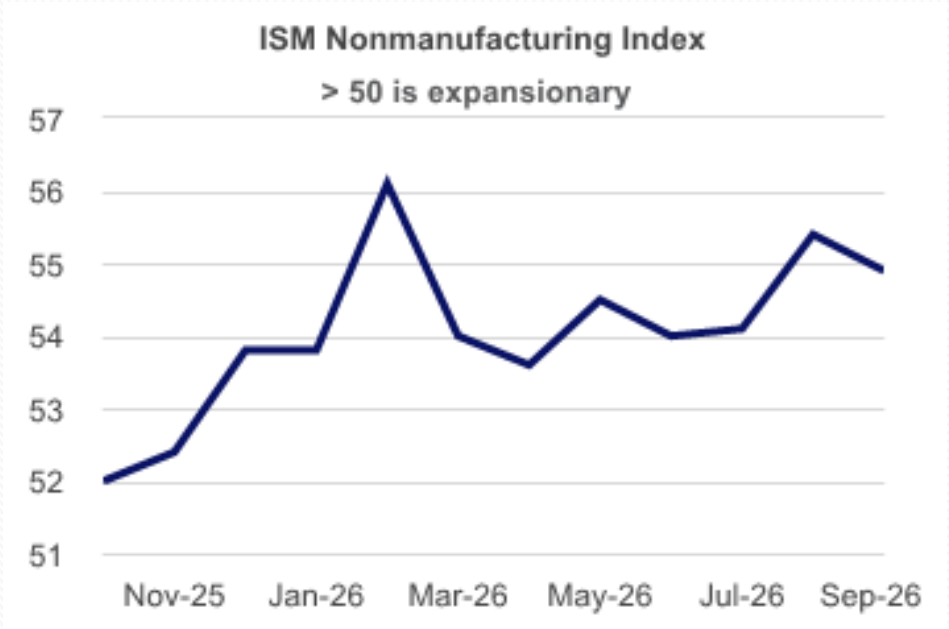
- Real GDP growth is running about 2.5%, while nominal GDP is growing about 6%
- The bond market vigilantes have pushed rates up and have forced the FED's hand
- The 10 year treasury bond rate increased about 1% which drove 30 year mortgage rates to about 7.5%
- Consumer confidence (survey 5000 people) hit a 12 year low in September but is up slightly in October


Consumer Confidence Index 1985=100
115
110
105
100
95
90
85
80
Feb-25
Jun-25
Oct-25
Feb-26
Jun-26
Oct-26
Monthly
3-mo MA

The U.S. Economy

- The ISM manufacturing index has been struggling for over 3 years, but has been above 50 for the last 11 months
- Manufacturing jobs and output are both increasing
- The service sector continues to expand, and the index is up significantly since October and continues to rise steadily


ISM Purchasing Managers Index
> 50 is expansionary
56
54
52
50
48
46
Nov-25
Jan-26
Mar-26
May-26
Jul-26
Sep-26


ISM Nonmanufacturing Index
> 50 is expansionary
57
56
55
54
53
52
51
Nov-25
Jan-26
Mar-26
May-26
Jul-26
Sep-26

U.S. Economy

- Real average hourly earnings increased for about 30 consecutive months until the war started
- The rate of inflation rose from around 3% to around 4% while average hourly earnings declined from 4% to 3.4%
- Thus, real salary and wages have fallen for 6 consecutive months through September
- Corporate earnings growth continues to surprise to the upside
- Indeed, corporate earnings have grown at double digit rates for 7 consecutive quarters

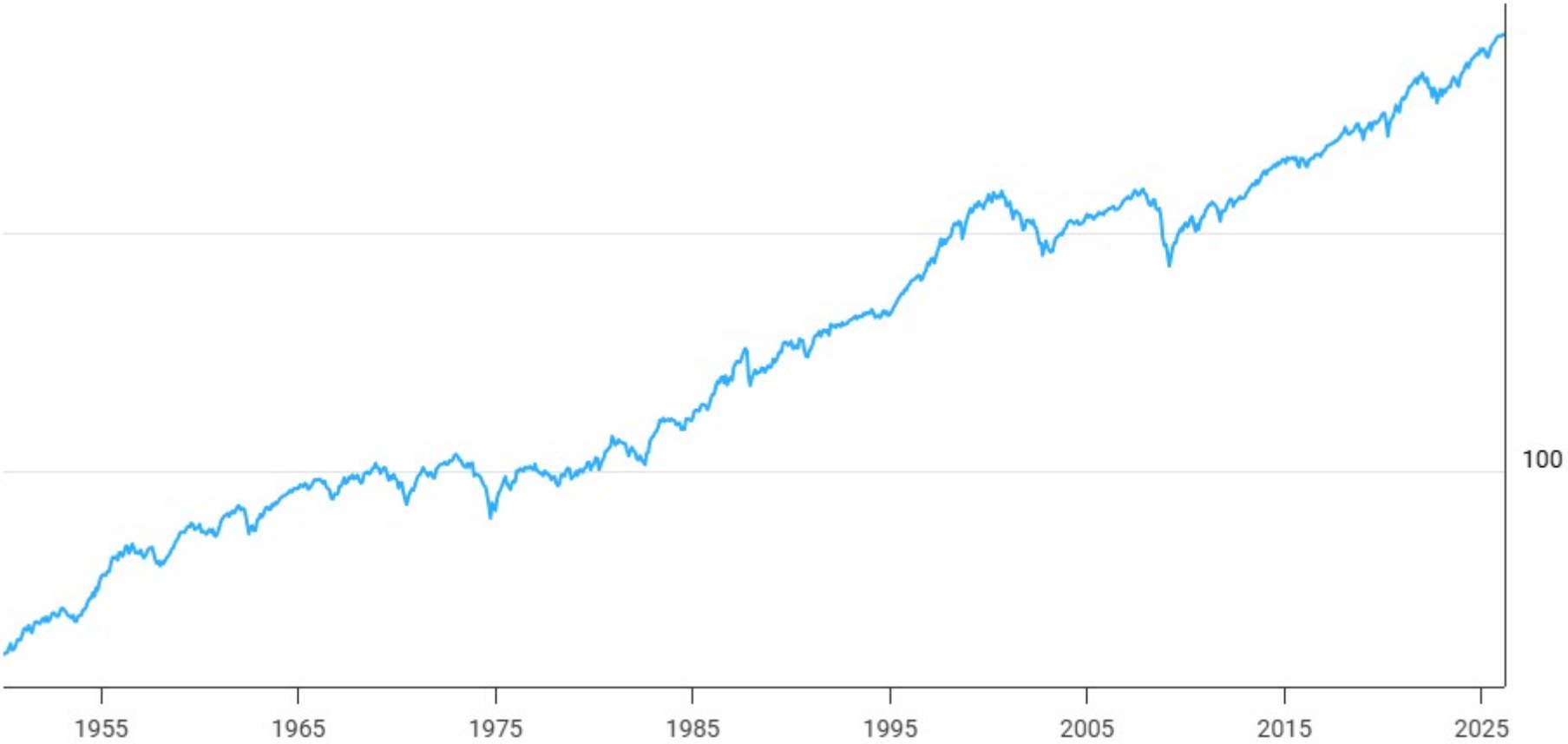
U.S. Economy

- Consumer debt continues to increase but is not unusually high
- Credit card and auto delinquencies are growing
- Retail Sales are relatively strong
- Since 2006 the federal debt has grown 500% while the economy has grown 250%
- $2 trillion / $40 trillion
- France and Government debt

U.S. Economy

- The S&P 500 stock index has been up about 20% for each of the last three years
- The index is up double digits so far this year
- The markets are near record levels

S&P 500 Stock Index



The K-Shaped Economy

- Both salaries and wealth are K-shaped
- Top 20% of wage earners continue to pull away
- The same is true for the top 20% of wealth owners

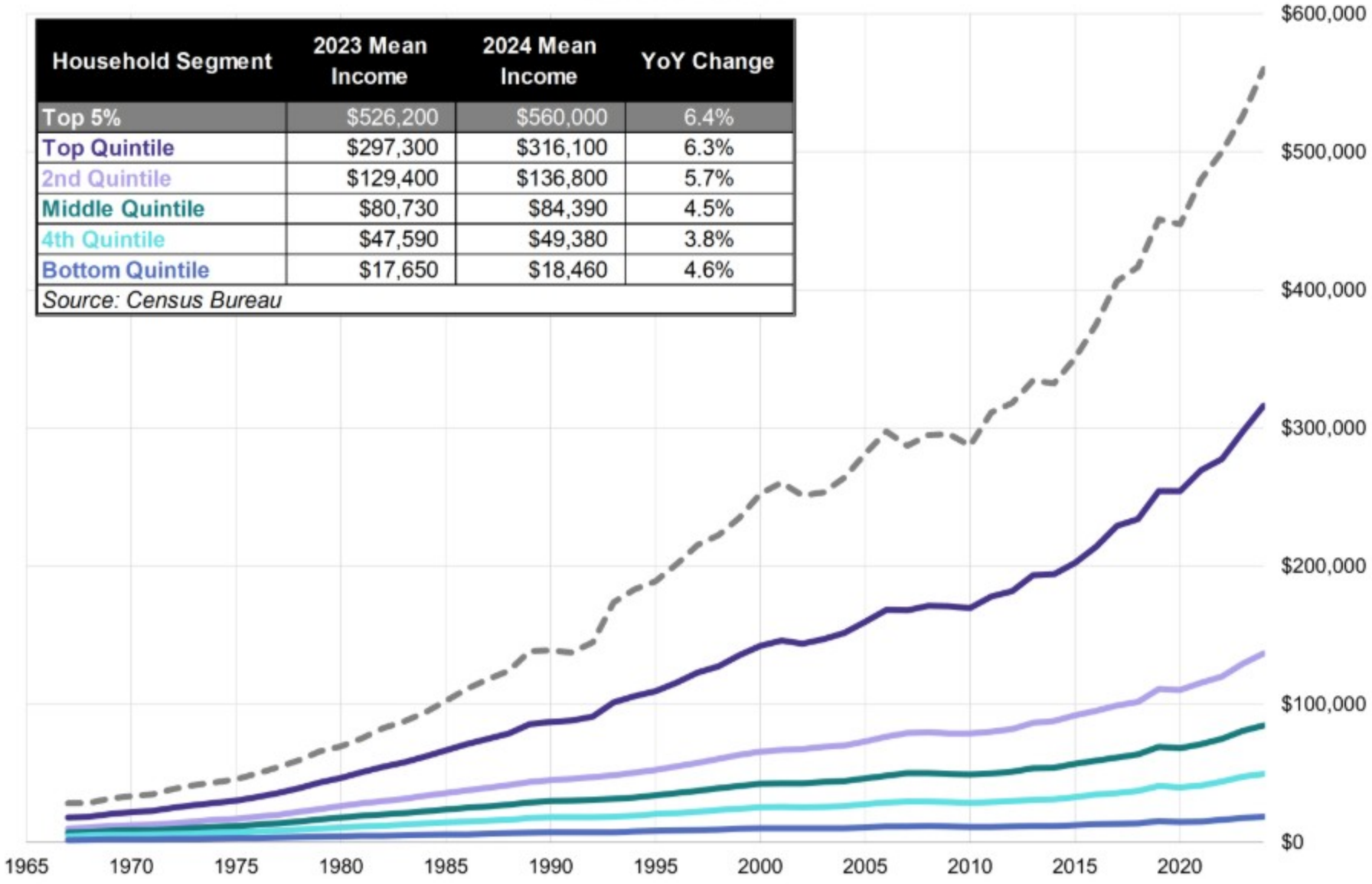
VettaFi Advisor Perspectives

advisorperspectives.com

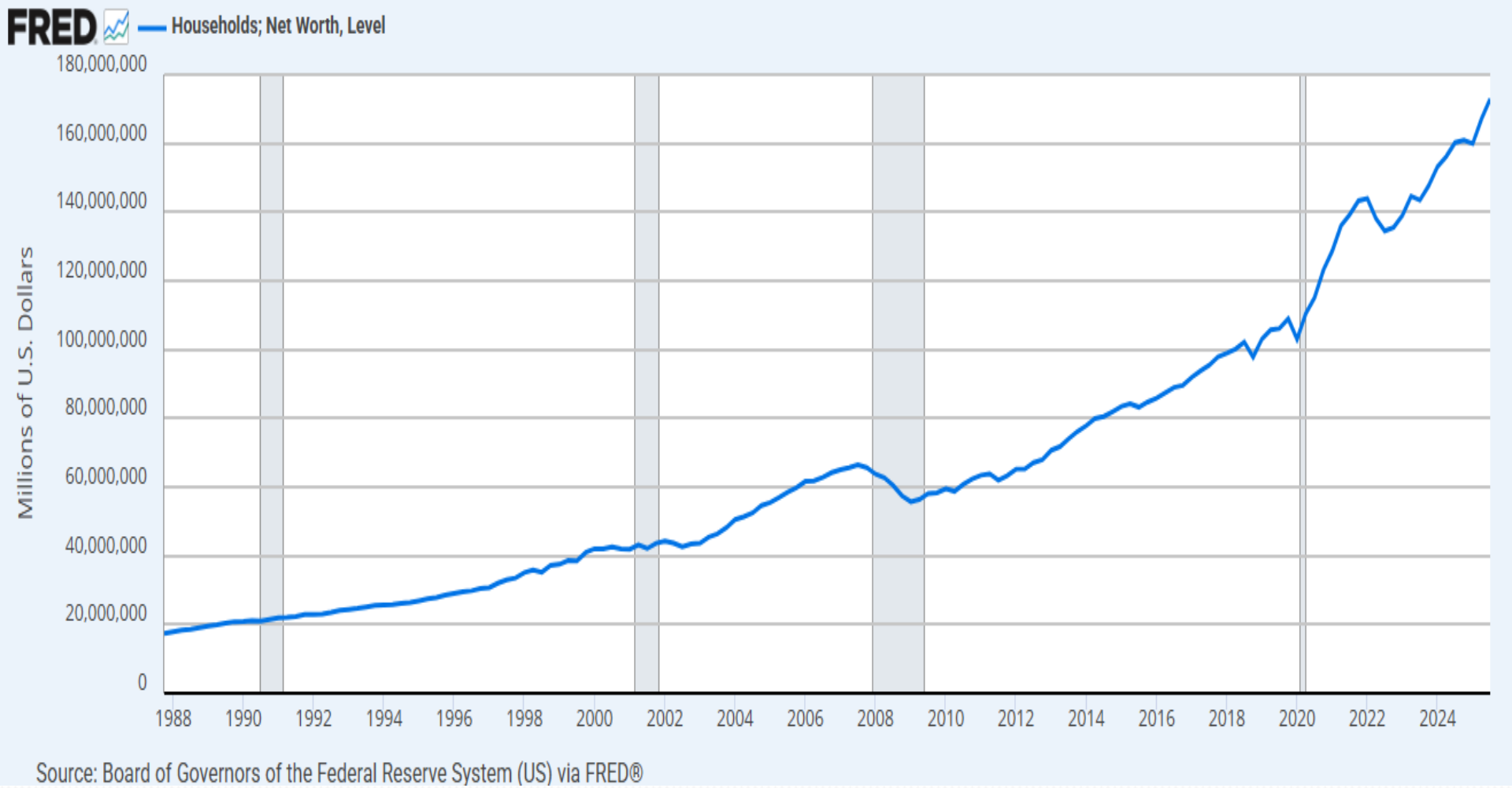
Average Household Income: Quintiles

Current Dollars

Household Segment	2023 Mean Income	2024 Mean Income	YoY Change
Top 5%	$526,200	$560,000	6.4%
Top Quintile	$297,300	$316,100	6.3%
2nd Quintile	$129,400	$136,800	5.7%
Middle Quintile	$80,730	$84,390	4.5%
4th Quintile	$47,590	$49,380	3.8%
Bottom Quintile	$17,650	$18,460	4.6%
Source: Census Bureau			



Household Net worth



Inflation

- Productivity rose the most in decades for the past 3 quarters
- Productivity vs. Population growth
- 1-2 million legal immigrants yearly

The FED

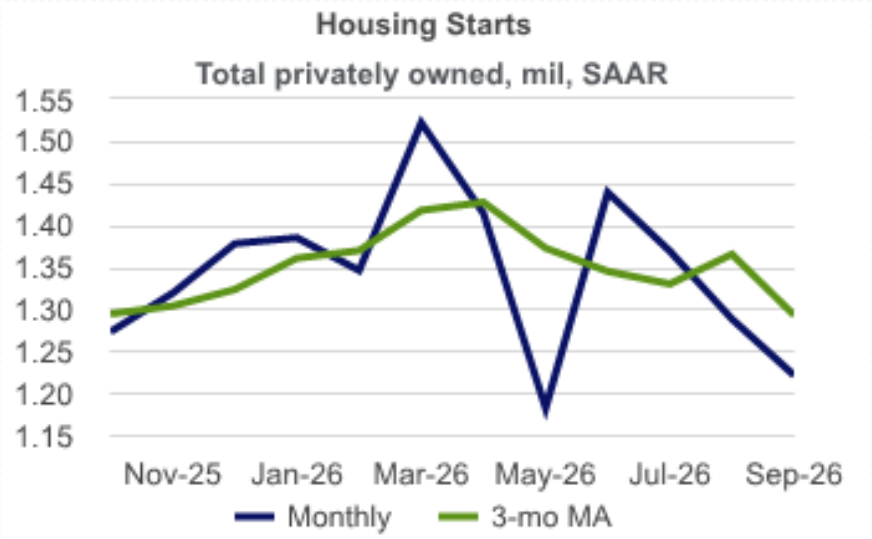
- Kevin Warsh – dove or hawk??
- One and done
- Inflation is a monetary event
- Flat to inverted yield curve
- Recession
- The Fed Funds Rate should be in the range of 2.5% – 5%

Real Estate ☹ ☹

- The NAHB Sentiment Index has been under 50 for about 2 years and recently dropped further in September
- 38% of NAHB members reported cutting new home prices in recent months
- Home prices (Case Shiller) are essentially flat nation wide
- Housing starts remain anemic and fell to 1.22 million in September
- New single-family rental starts are at a record level

Real Estate ☹ ☹

- More people are choosing to rent
- Outside investors accounted for 30% of all single-family home purchases in 2025
- That percentage was 18% in 2023


Housing Starts
Total privately owned, mil, SAAR
1.55
1.50
1.45
1.40
1.35
1.30
1.25
1.20
1.15
Nov-25
Jan-26
Mar-26
May-26
Jul-26
Sep-26
Monthly
3-mo MA

Real Estate ☹ ☹

- The average age of a first-time home buyer has risen from 28 to 39 since 1995
- Existing home sales remain anemic and have dropped under 4 million units in September
- 60% of houses have a mortgage
- The average mortgage rate is 4.5%


Existing Home Sales
Mil, SAAR
4.30
4.25
4.20
4.15
4.10
4.05
4.00
3.95
3.90
Nov-25
Jan-26
Mar-26
May-26
Jul-26
Sep-26
Monthly
3-mo MA

U.S. Employment

- The unemployment rate was 4.2% in September
- Job growth is considerably less now than in 2025
- We have a “no hire, no fire” labor market
- Jobless claims have declined for the last 12 months

North Carolina

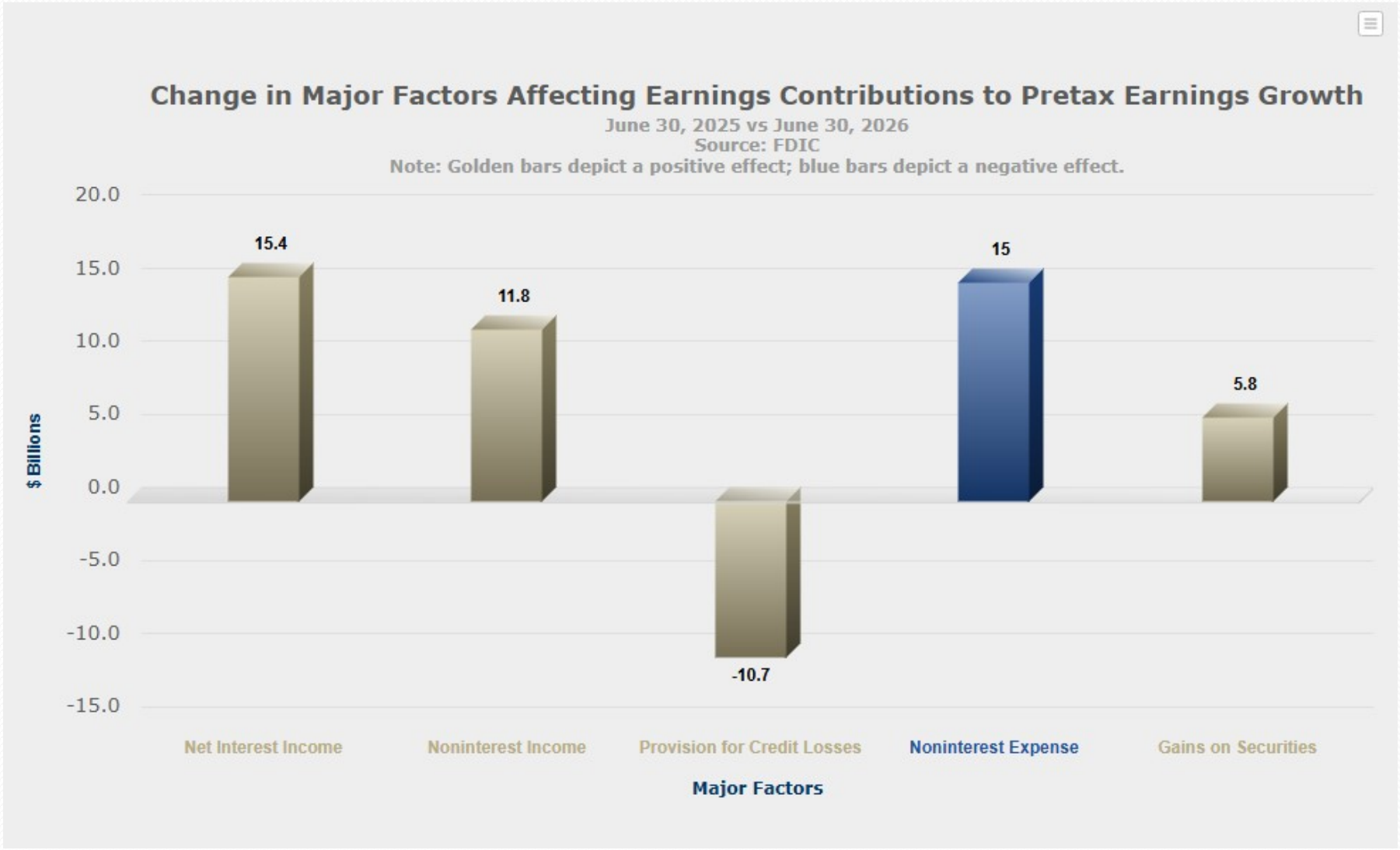
- The September unemployment rate was 3.4%
- Low corporate and individual tax rates
- 91 banks operate in North Carolina
- Strong population growth

Bank Performance Q2 2026

- NI rose for the quarter and Y/Y
- 69% of institutions reported higher net income from the prior period
- NIM increased slightly for the quarter
- Interest Income rose slightly more than interest expense

Bank Performance Q2 2026

- Loan growth increased nearly 7% for the quarter
- The provision was down Y/Y
- Domestic deposits increased for the 8th consecutive quarter
- 4 *de novo* banks during the quarter
- The number of institutions declined by 41 during the quarter
- 4 banks purchased by credit unions


Change in Major Factors Affecting Earnings Contributions to Pretax Earnings Growth
June 30, 2025 vs June 30, 2026
Source: FDIC
Note: Golden bars depict a positive effect; blue bars depict a negative effect.
$ Billions
20.0
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
15.4
11.8
-10.7
15
5.8
Net Interest Income
Noninterest Income
Provision for Credit Losses
Noninterest Expense
Gains on Securities
Major Factors

Economic Outlook

- GDP growth will should be about 2.3% this year and next
- Recession possible in 2028
- Inflation will be closer to 4% this year and decline close to 2.5% next year
- The FED will likely raise rates 2 or 3 times

Economic Outlook

- Mortgage rates will remain around 7%
- Existing and new home sales prices will be flat to slightly up for the next 12 months
- NC economy will continue to outperform

Economic Outlook

- NIMs, NII, and NI stable
- Loan growth around 7% this year and decline to 6% next year