OLD NATIONAL BANK®

A Time of Transition

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There are a lot of moving pieces

TRUMP 2.0

MONETARY POLICY EASING

IMMIGRATION

TARIFFS

INFLATION

ENERGY POLICY

DEMOGRAPHICS

Does the macro environment support growth in North Dakota?

Oil and Gas ……………. ✓

Agriculture ……………… ?

Manufacturing…………… ✓

Defense Spending …….. ✓

Opportunities

Immigration

Only 4.5% of ND residents are foreign born compared to 14% in the U.S. as a whole

Higher Education

While more ND residents have a high school diploma than average (93.8% vs. 89.4%), fewer have a college degree (32.3% compared to 35%) than the U.S. as a whole

Broadband Internet

ND 87.5% compared to 89.7% in the U.S.

More people in North Dakota work.

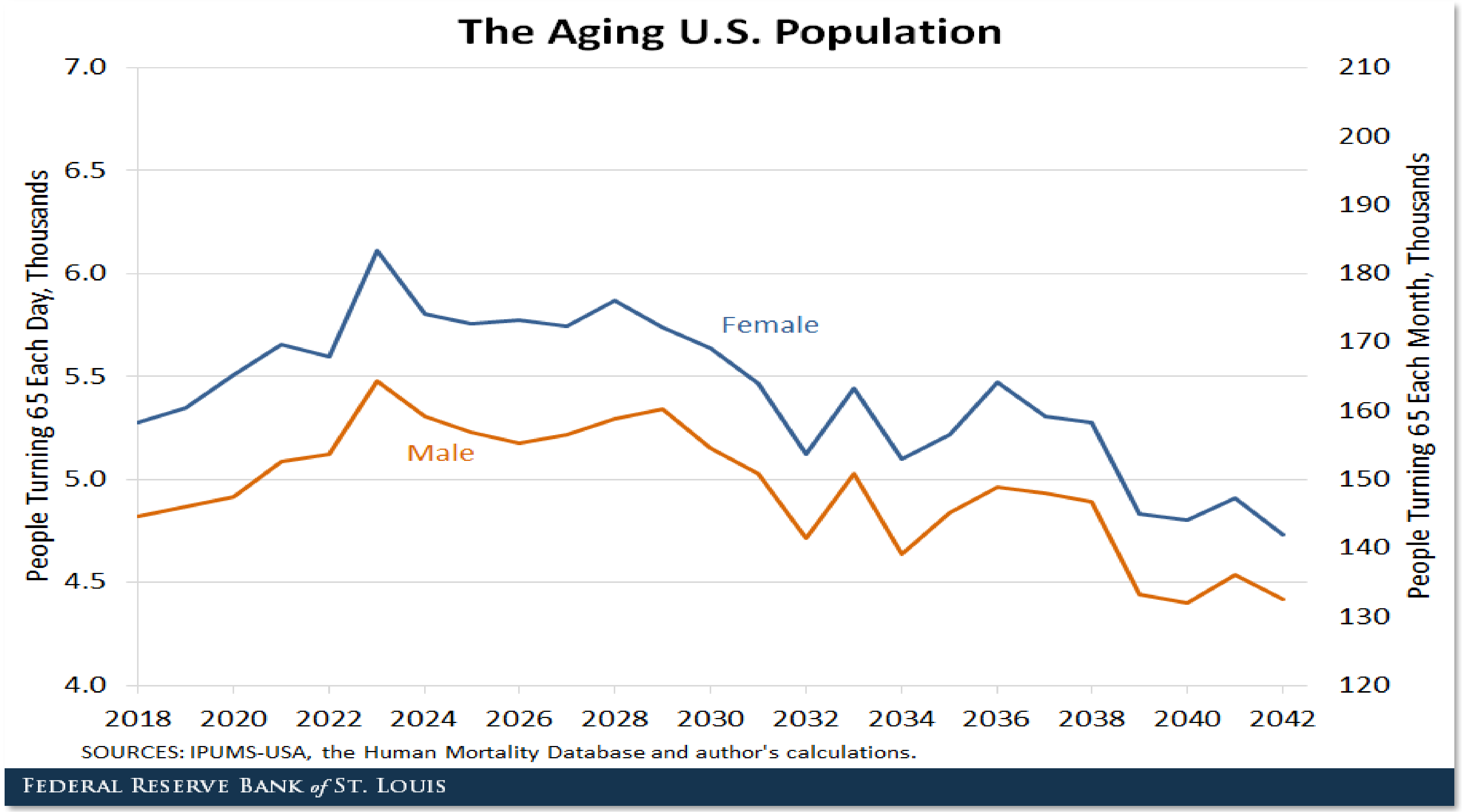
Participation rate in ND is 67.8% compared to 63% in the U.S. as a whole. And substantially more women work in ND. (64.2% vs. 58.7%)

North Dakota has the 6th highest per capita GDP out of all 50 states.

People here work hard!! Per capita GDP for the U.S. is $66,813 and for North Dakota it is $74,005.

Source: Federal Reserve Bank of St. Louis

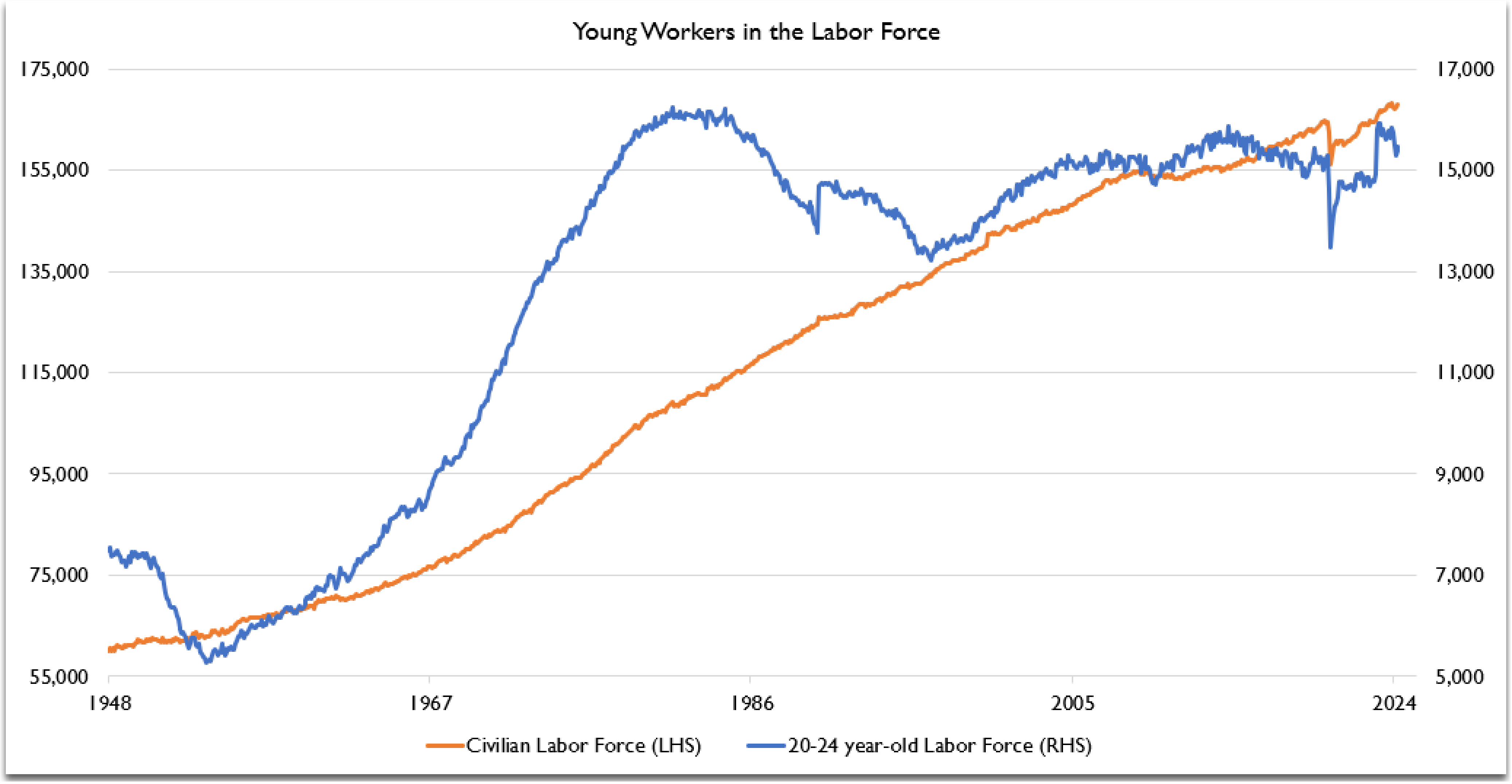
Every day, over 10,000 Americans turn 65



- The good news is that the population in North Dakota is slightly younger than the U.S. as a whole.
- 17% of North Dakotans are over 65, compared to 17.7% for the US.
- However, while the total population of ND grew 15.8% from 2010 to 2020, the percent of ND residents over age 65 grew 26.6%.

Source: Federal Reserve Bank of St. Louis, Census Bureau

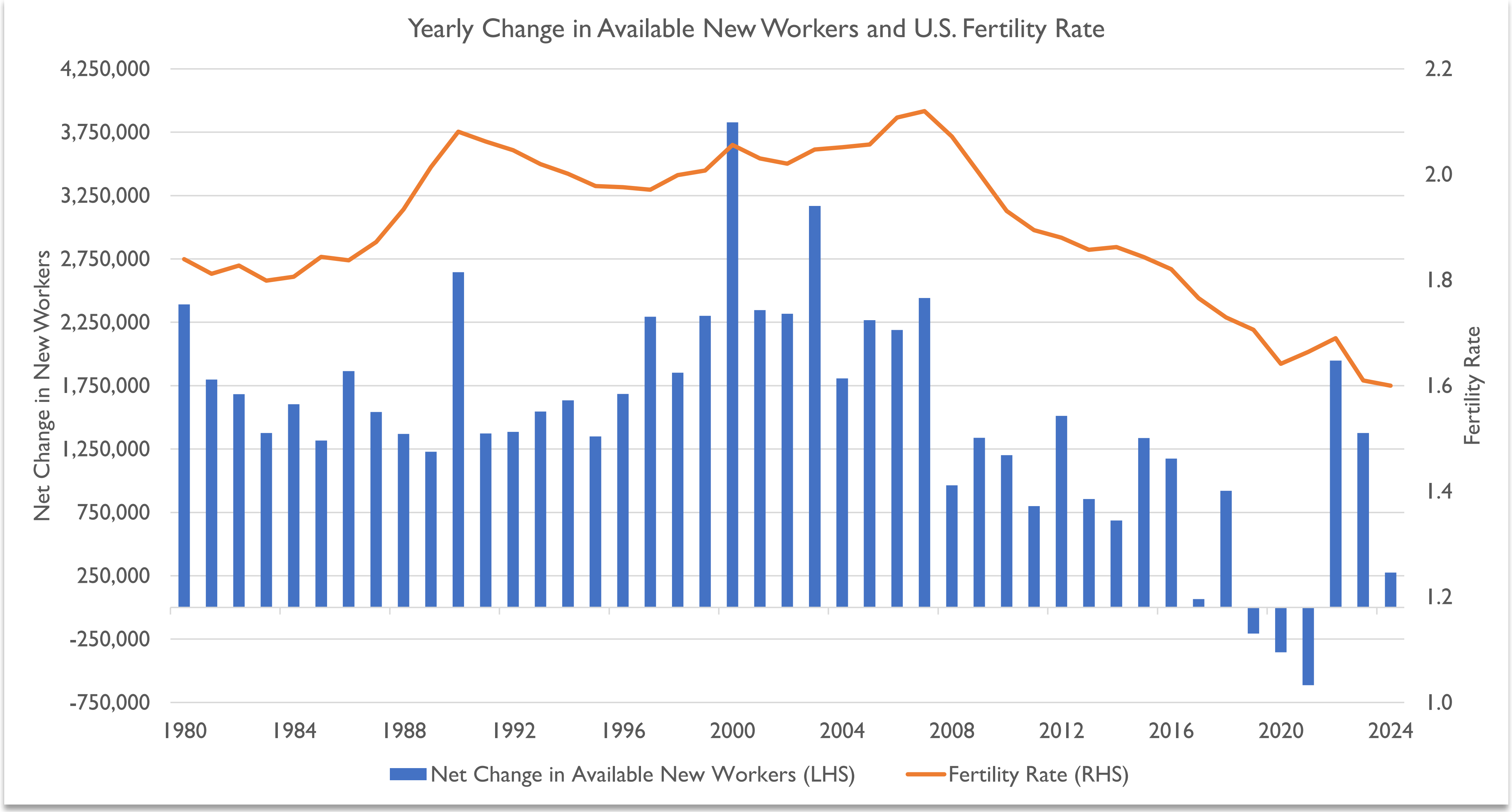
Fewer young people in an older labor force



North Dakota has the 2nd highest percentage of young workers, 20-24, in the whole United States at 7.6%.

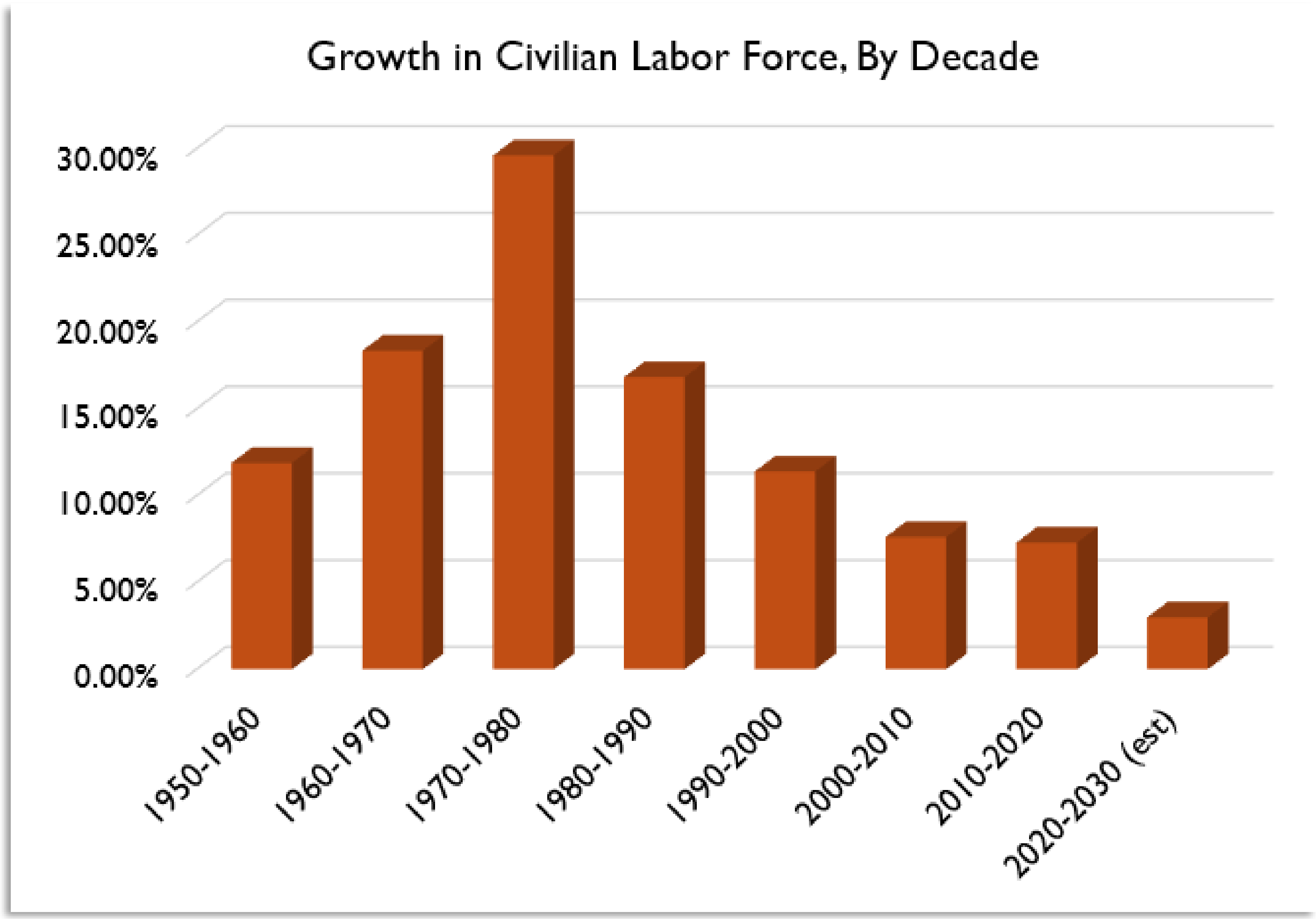
Source: Bureau of Labor Statistics, FRED

Structural Challenges for the U.S. Workforce



Source: Bureau of Labor Statistics, FRED

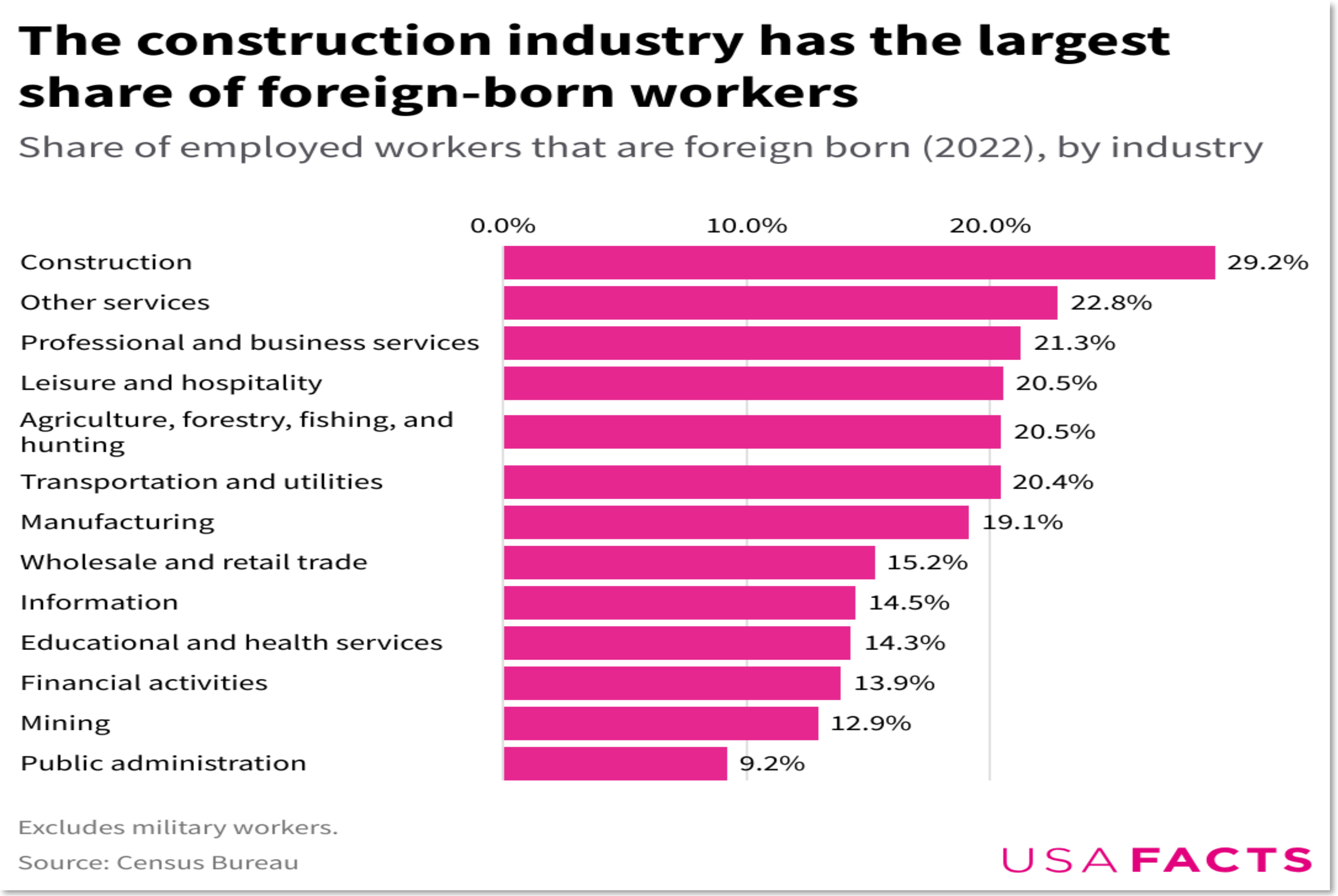
Employment growth is slowing.



Sources: FRED, Oxford Economics

- The decline in birth rates over the past decade to below the replacement rate, coupled with an aging population has resulted in fewer available workers.
- Advances in AI may eventually result in higher productivity per worker, enabling higher economic growth, but in the interim, economic growth will slow and wage growth will remain elevated as businesses compete for talent.
- Mass immigration may help with lower paying service jobs, but shortages will persist in STEM and licensed healthcare positions.

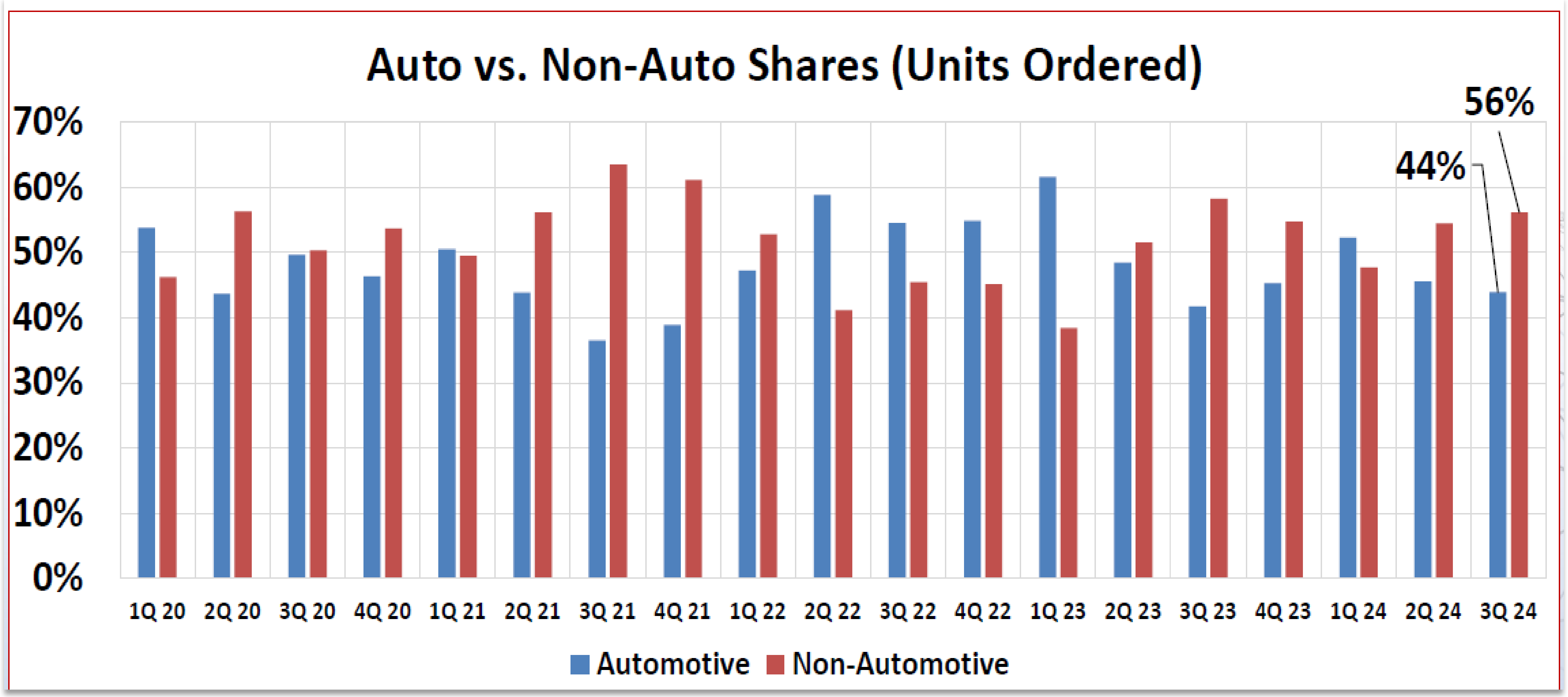
Foreign-born workers account for much of the growth in labor.



The construction industry had the highest share of immigrant workers in 2023: an estimated 3.3 million, or 11% of all immigrant employment. In comparison, 8.2 million native-born people worked in construction in 2023, representing 6.3% of all native-born employment

Sources: Census Bureau 2023 Current Population Survey, USA Facts

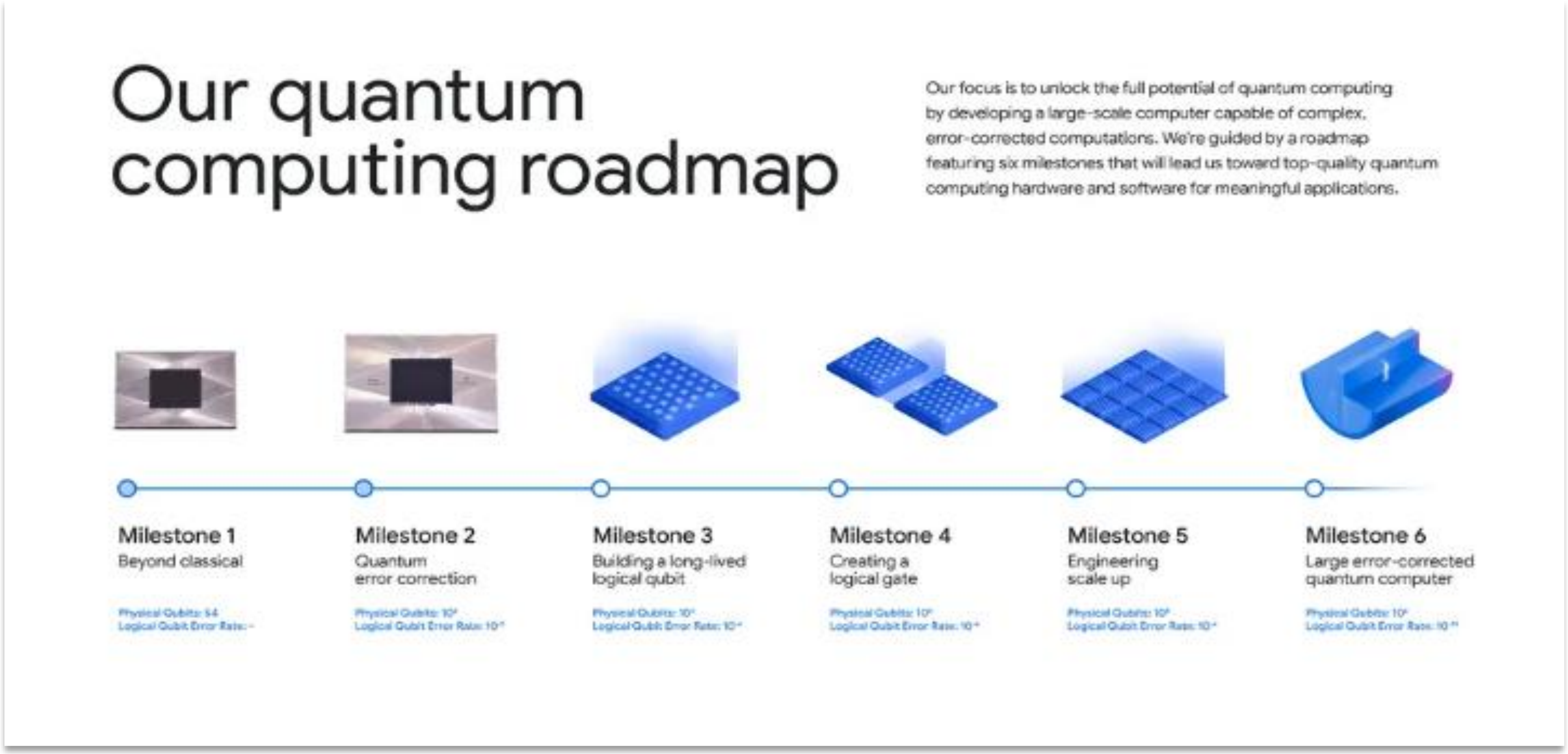
Sales of industrial robots are growing 8x faster than the labor force.



Source: A3, the Association for Advancing Automation

Two of the fastest growing segments are food processing/handling, +60% y/y, and pharmaceutical prescription processing, +43% y/y.

10,000,000,000,000,000,000,000,000 years is a long time.



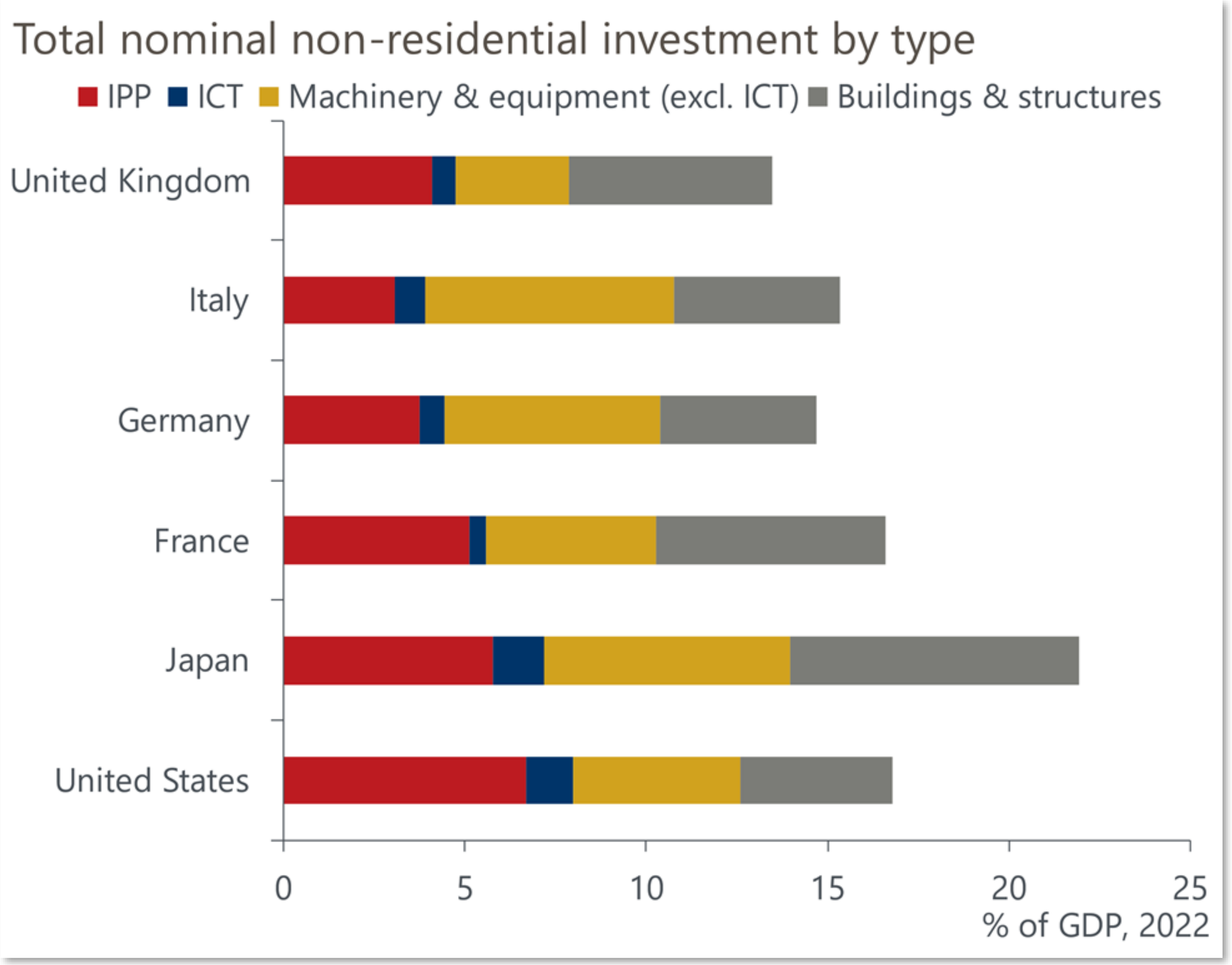
★

Willow performed a standard benchmark computation in under five minutes that would take one of today's fastest supercomputers 10 septillion (that is, 10^{25}) years — a number that vastly exceeds the age of the Universe.

A technology that perpetually feels like it's five years away, may only be two years away.

Source: Google QuantumAI

Tech investment will continue to drive US productivity.



Source: Oxford Economics

- **The US leads the world in Intellectual Property (IPP) and Information and Communication Technology (ICT)**.

- ICT investment has bolstered productivity levels across the US economy, especially in service sectors, whereas lackluster tech investment in other advanced economies has prevented them from fully capitalizing on the rise of new digital technologies.

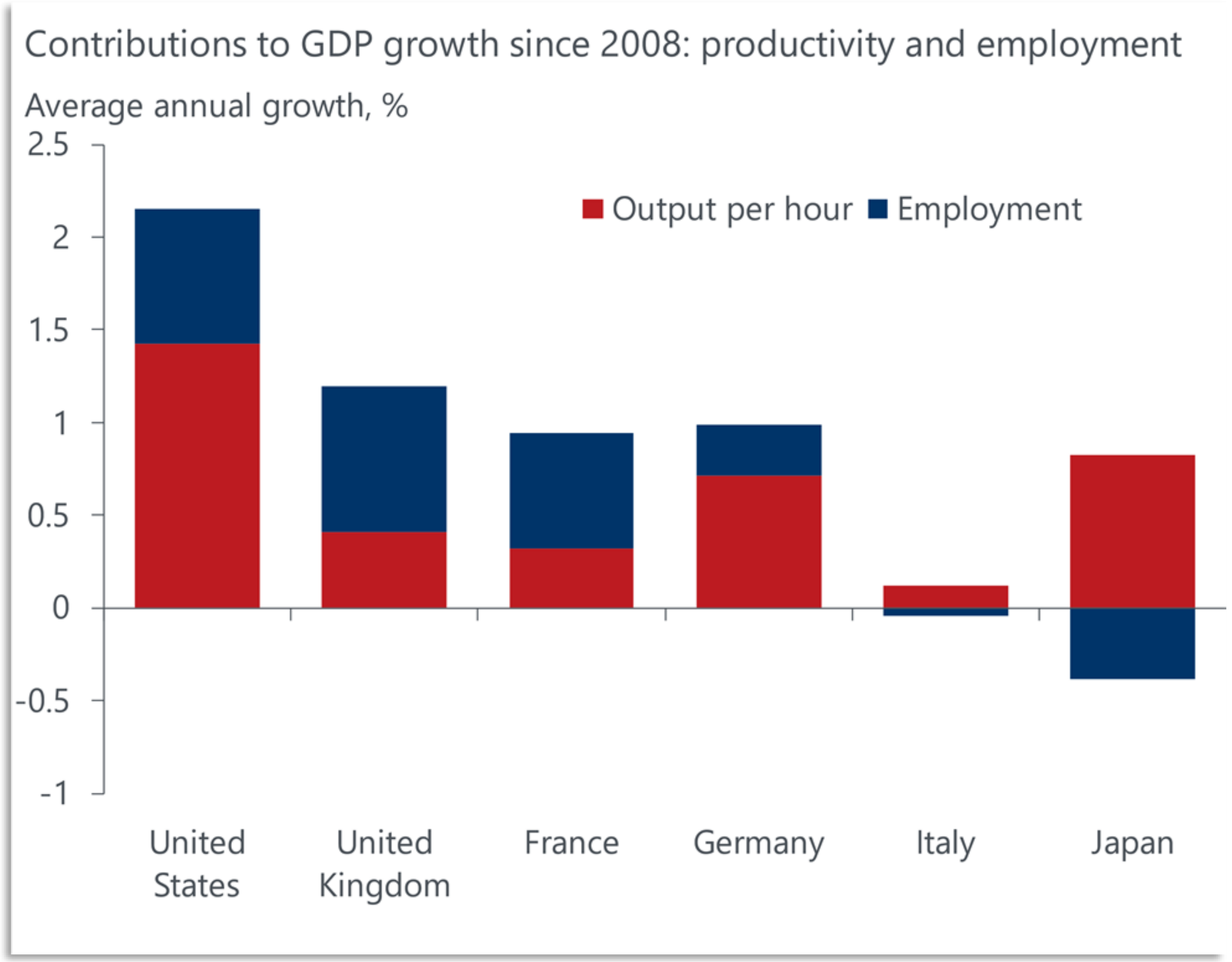
- We expect the investment gap will widen over the next several years as the proliferation of new productivity-enhancing but investment-heavy technologies, particularly AI, raises US productivity ahead of the rest of the world.

Productivity gains drive economic growth.

- **Although ICT investment makes up only a small share of GDP, it can have a proportionally larger effect on the economy and can deliver major productivity benefits.**

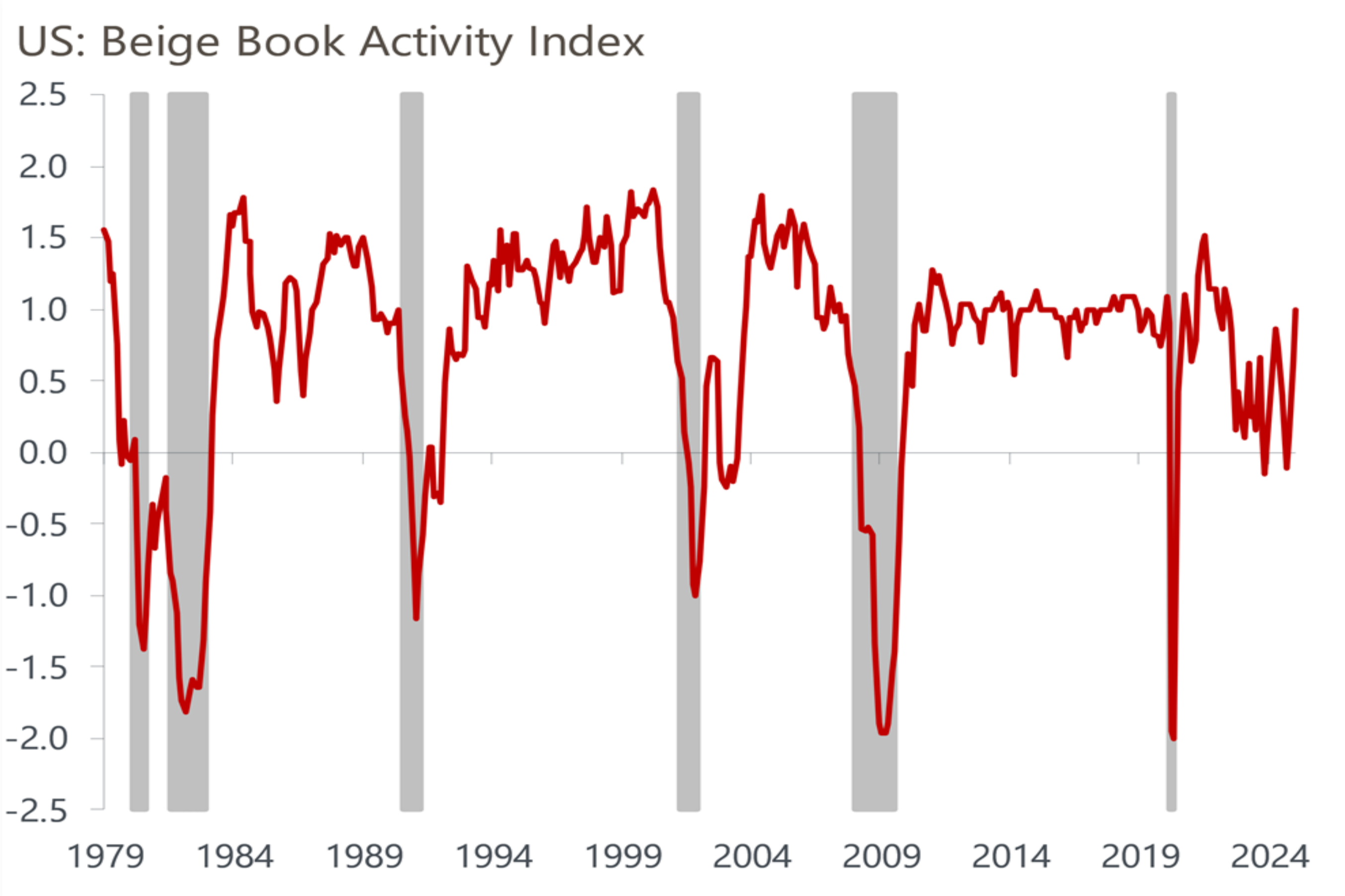
- This has been a major factor in the divergence in productivity performance between the US and European economies, as Europe has lagged in both the development and diffusion of productivity-enhancing technologies.

- The US tech sector will continue to lead global innovation, with the impact of new technologies, especially AI, driving the demand for tech investment and producing a larger uplift to US productivity than in other advanced economies.



Source: Oxford Economics

Beige Book shows broad, but modest improvement.



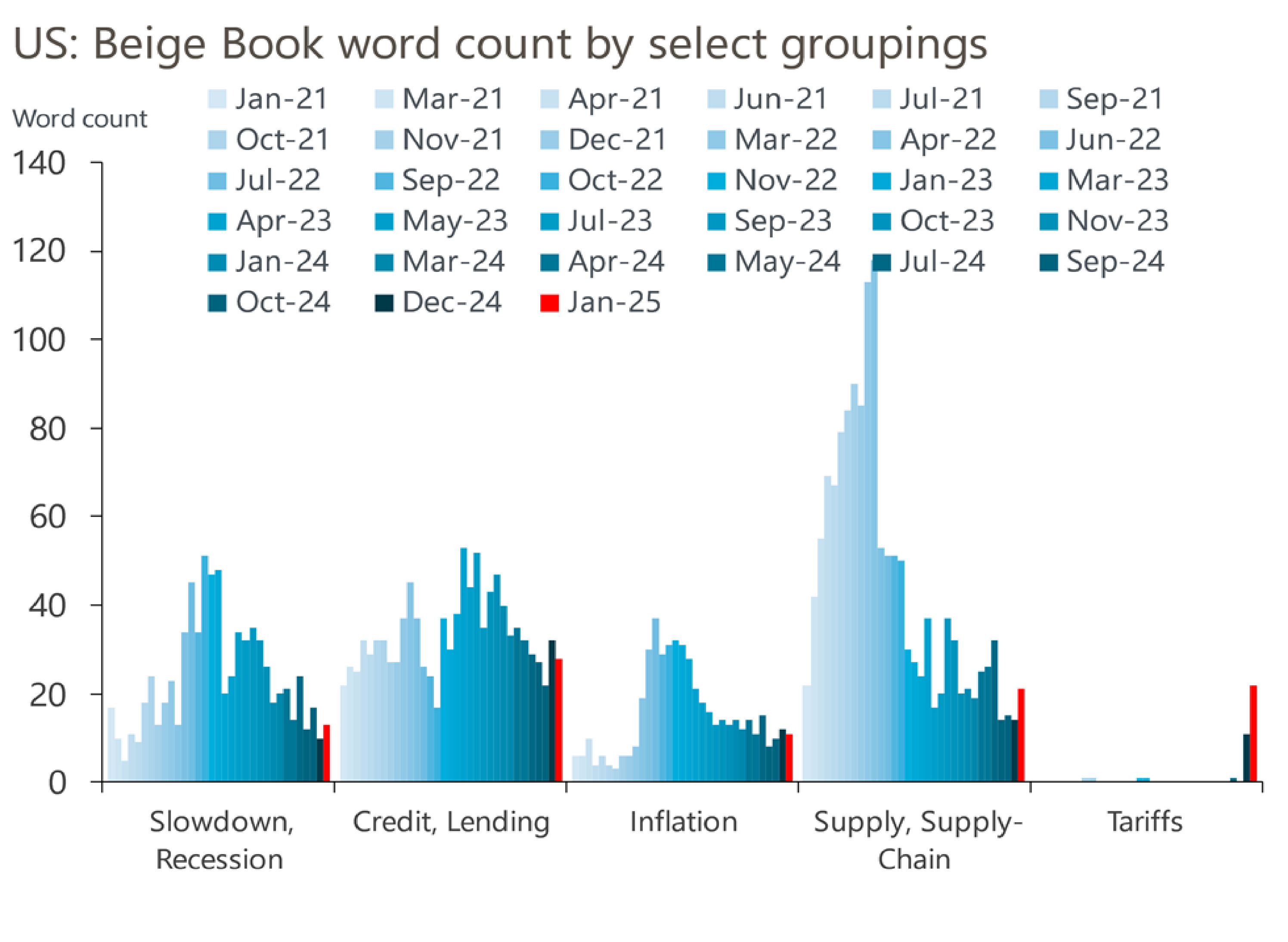
Source: Federal Reserve Beige Book, Oxford Economics

Economic activity increased, at least slightly, in all 12 Federal Reserve districts according to the December Beige Book.

From Chicago Fed: Economic Activity was up modestly overall. Construction and real estate activity was flat.
From St. Louis Fed: Economic Activity has slightly increased, but consumer spending has been mixed.
From Minneapolis Fed: Construction activity was lower.
From Atlanta Fed: Economic Activity grew slowly. Employment steady, wages are growing.

Overall, across the ONB footprint:
Economic activity is increasing modestly in most of our area. Employment remains solid and while we are cautious about 2025, we are not forecasting a recession. Commercial real estate markets were generally flat, although data center and infrastructure projects boosted activity in a few areas. Longer term, optimism seems to be growing.

Tariffs are increasingly a concern.



Minnesota Fed Highlights

- The Ninth District economy contracted slightly since the previous report.
- Employment grew modestly since the last report. Overall hiring was still positive, but job openings were either flat or lower for most contacts.
- Consumer spending rose moderately since the last report. Contacts reported that traffic and spending during the holidays was generally higher.
- District manufacturing activity decreased moderately since the last report. Expectations for 2025 were mildly optimistic.

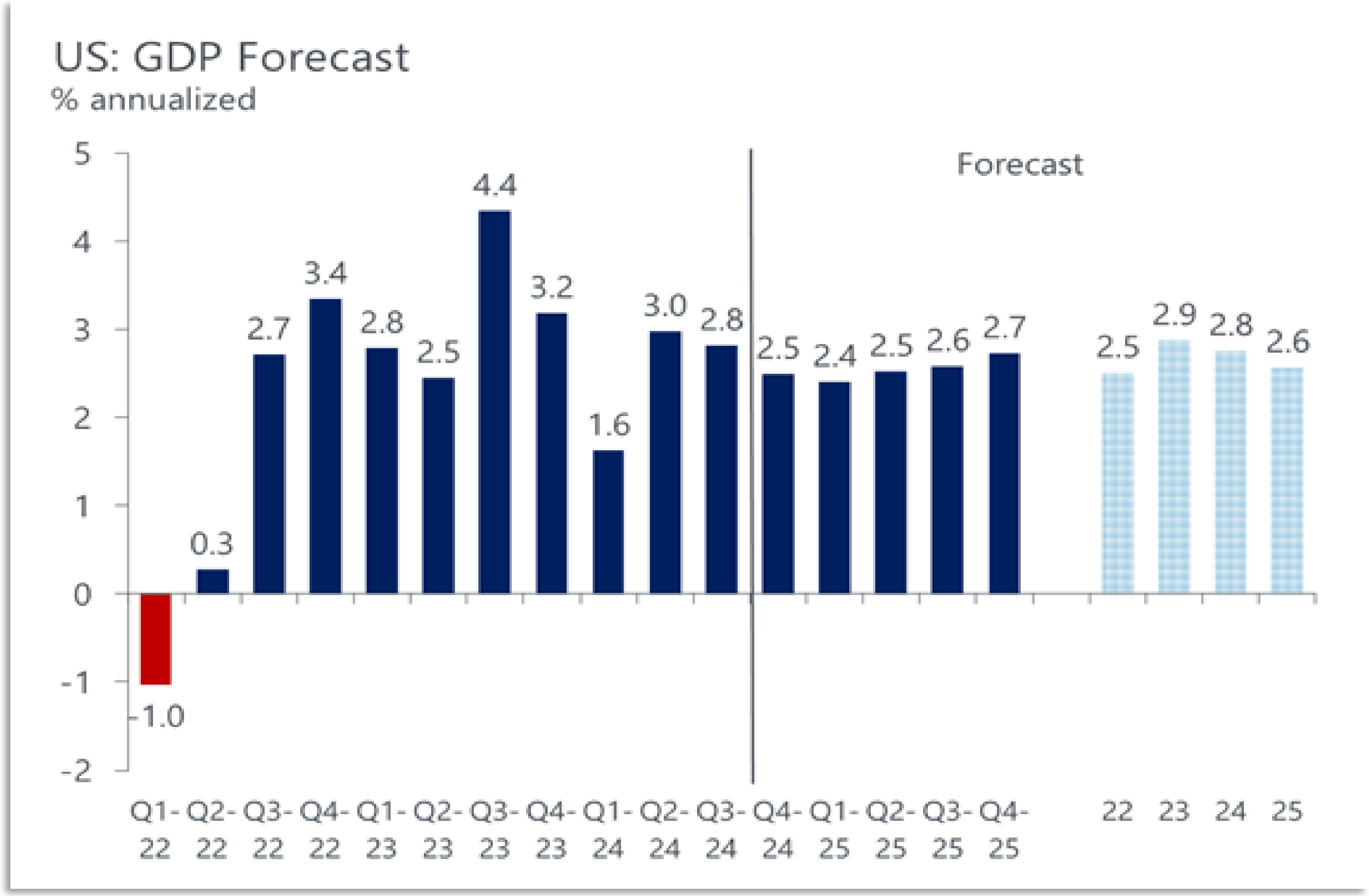
Source: Oxford Economics, Federal Reserve Beige Book

An economy in transition.

- **The economy remains in transition and is settling into a more sustainable pace of growth, with 2025 being a decent year, but unspectacular.** With GDP expected to rise 2.6% in ’25, we think the probability of a recession is low. Not zero, but low.

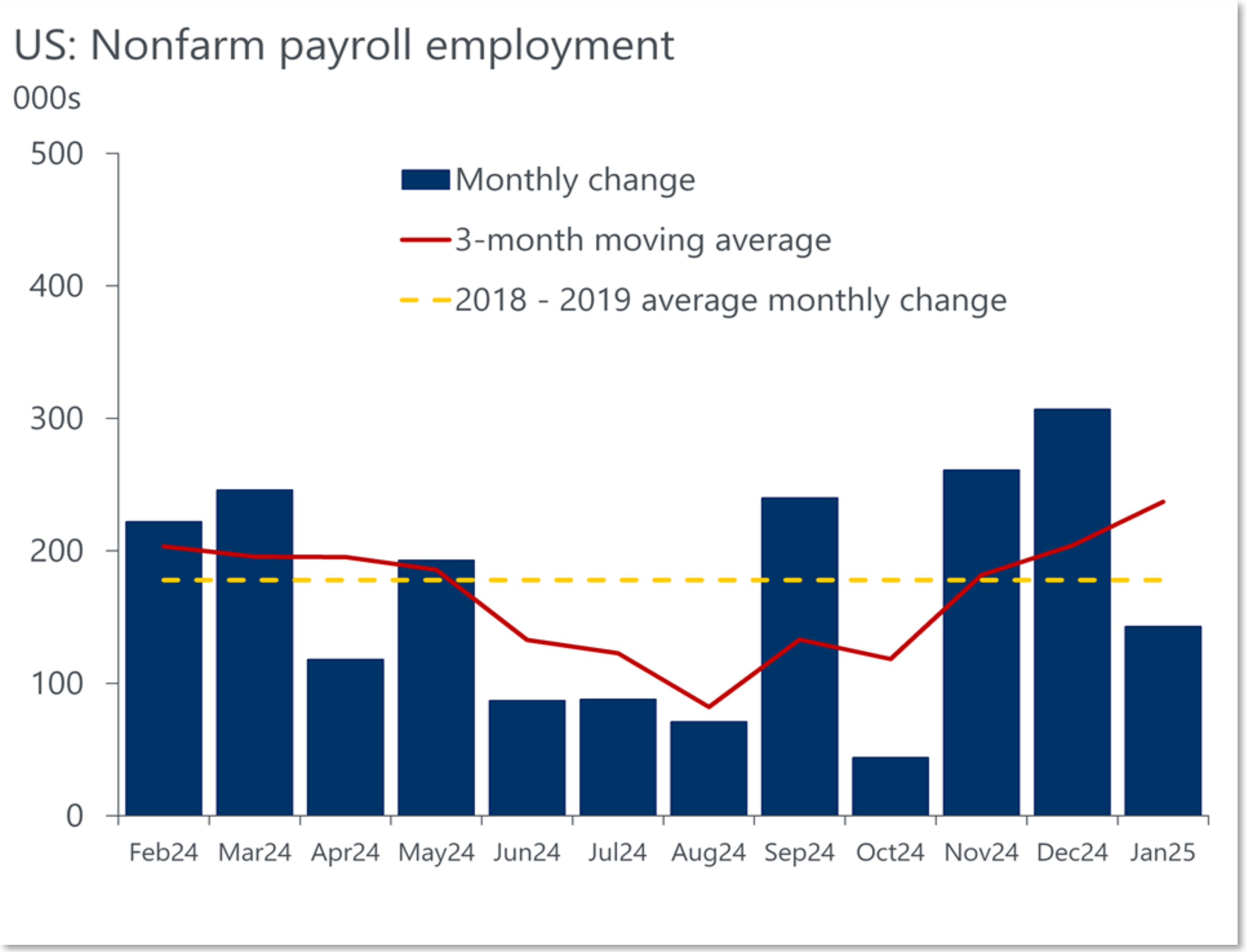
- **The labor market will hold up and unemployment will remain relatively low because growth in the labor force is slowing.** Layoffs are also expected to remain low next year.

- **Tariffs and expansionary fiscal policy will feed into higher inflation, but not until 2026.** Expect the Fed to only cut 25 to 50 bps in 2025, leaving the fed funds rate closer to 4% at the start of 2026.



Source: Oxford Economics

Noisy January employment report shows a solid labor market



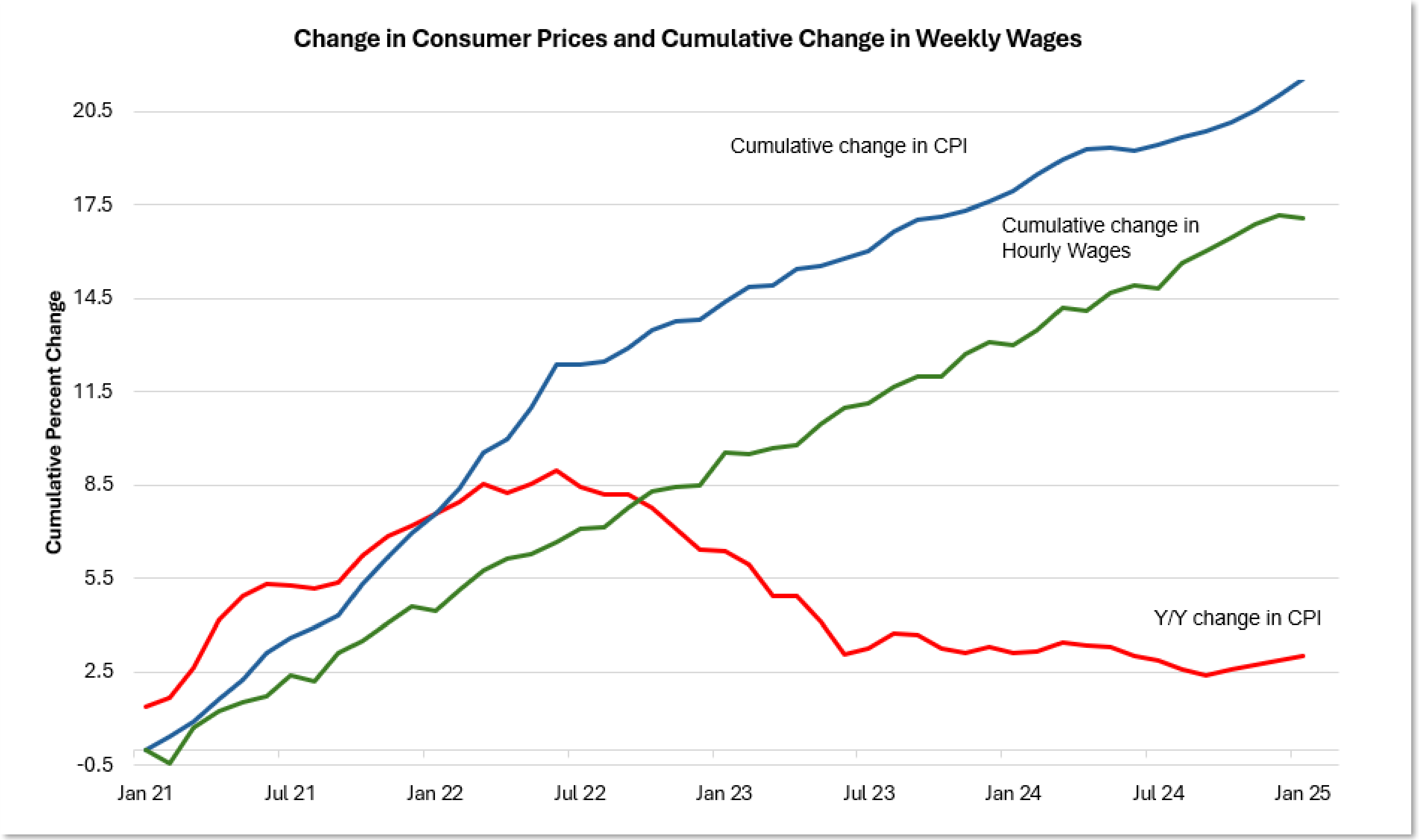
Source: Oxford Economics

- **Taken as a whole, the January employment report should reassure the Federal Reserve that the labor market is strong enough to withstand an extended period of unchanged policy rates while the central bank assesses progress on lowering inflation.**

- Nonfarm payrolls rose less than expected in January, but upward revisions to prior months pushed trend job growth above 200,000. Benchmark revisions were not as negative as expected.

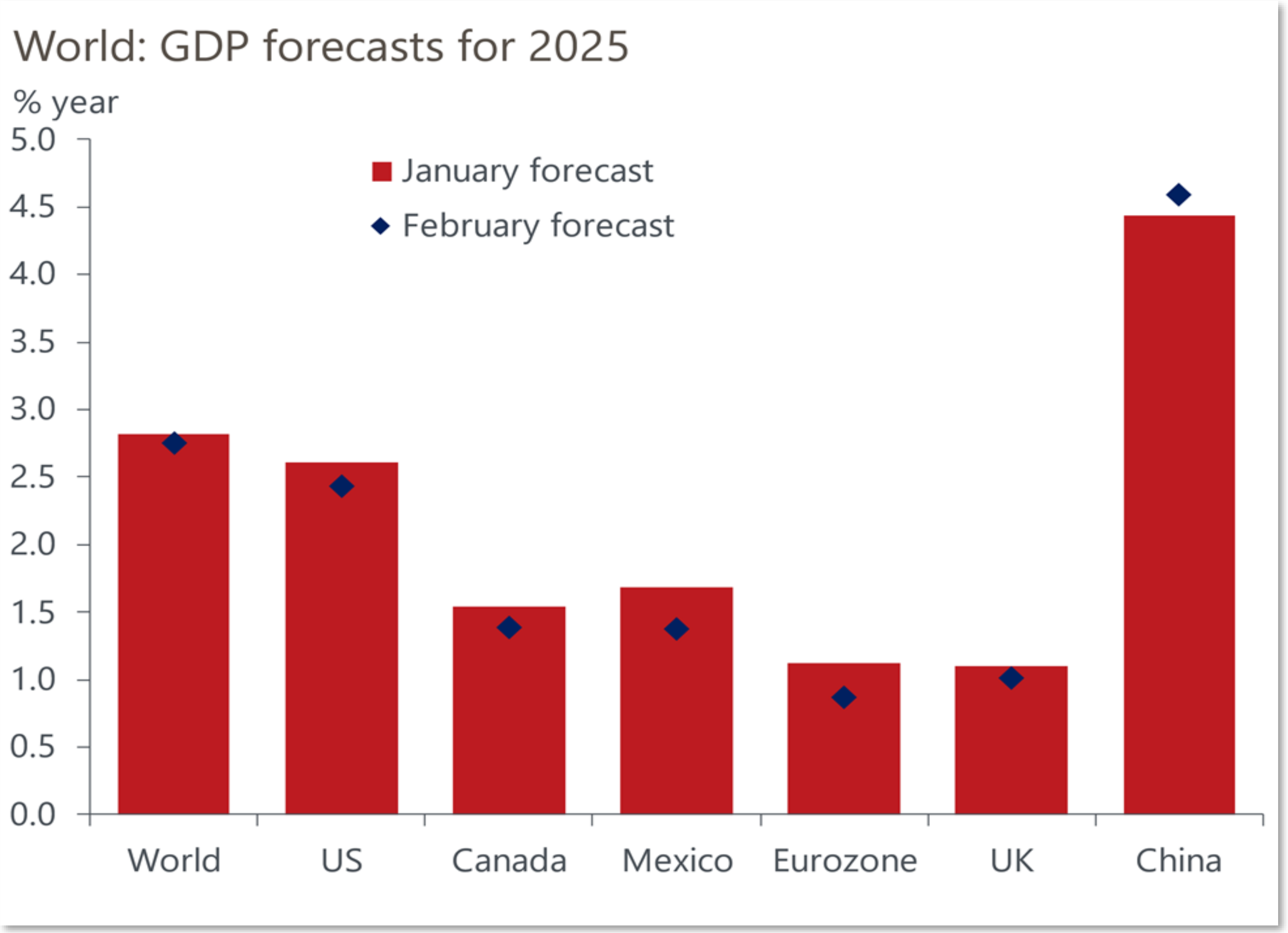
- The unemployment rate declined 0.1ppts to 4% in January, the lowest since May 2024.

How “Normal” people view inflation versus Economists



Source: 1834, a division of Old National Bank

Tariff developments don’t change the broad growth story.



Source: Oxford Economics

- **The US GDP forecast for 2025 has been downgraded slightly from 2.5% to 2.4%, but the thesis of US exceptionalism is still intact.**
- **The Eurozone GDP forecast for 2025 has come down 0.3 percentage points to 0.9%.**
- We now anticipate slightly higher US inflation and a more cautious pace of cuts by the Federal Reserve. But the squeeze on real household incomes won't undermine existing strong fundamentals.

AI will replace some jobs, but new ones are already being discovered

- **Call centers** staffed by live humans cost an average of $1 per minute per call.

- Salesforce now sells a service called Agentforce, a platform that deploys AI agents. After these new agents go through your data, the number of questions that required human intervention declined by half. However, Salesforce is **now hiring 2,000 new salespeople to sell Agentforce**.

- **Doctor visits** will soon be recorded, transcribed, and summarized for your health records.

- As happened with telephone operators, bank tellers, travel agents and so on, **jobs lost are replaced by new and better-paying jobs in emerging industries.** Every time. Yes, AI is now going after white-collar jobs with a vengeance, but that means freeing up capital to fund new technologies that don't yet exist.

★ **McKinsey projects that "8 to 9 percent of 2030 labor demand will be in new types of occupations that have not existed before."**

Source: The Wall Street Journal, McKinsey

Potential policy implications.

Immigration:

Trump will likely tighten legal immigration from roughly 1 million per year to 400,000 while deporting up to 3.3 million unauthorized migrants by 2027. This will result in lower labor force growth and an immediate tightening of labor supply. All else equal, this will put upward pressure on wages and interest rates.

Tariffs:

It's fairly certain that President Trump will impose new tariffs. What is not clear is the magnitude. Our trade partners will immediately retaliate with tariffs of their own. Some appreciation in the U.S. dollar will offset the inflationary effects, but net/net prices will rise.

Fiscal Policy/Deficits/Debt:

Nothing immediate; but if economic growth doesn't offset further tax cuts, and annual spending isn't restrained, deficits will increase leading to higher rates.

Energy:

Oil exploration and drilling requires a long-time commitment. The reopening of drilling on federal land will not result in any immediate benefit. Expediting the permitting process will help existing projects, but the net increase in domestic production is limited.

Source: Evercore ISI

Potential policy implications.

1. **Reduced economic bifurcation**, i.e. a better small/mid-sized business environment.
2. **Eventual small business employment gains**. They are 82% of all jobs.
3. **Lower energy prices**, a boost for low to moderate income consumers.
4. **More labor force participation**
5. **Manufacturing renaissance reaccelerates**, led by the private sector, not big government.
6. **Stronger dollar** from more robust growth.
7. **Higher bond yields** because of higher GDP growth.
8. **Less Fed easing** because of stronger potential GDP growth.
9. **Much higher growth in defense spending**.
10. **Dramatic reduction in illegal immigration**, along with incremental deportations.
11. **Potential cancellation of CHIPS and IRA spending**, further reducing inflationary pressures.

Source: Piper Sandler

Our “Big Themes” for the next decade and beyond.

1

Healthcare

As more than 10,000 Americans turn 65 each day for the next decade, the need for healthcare, particularly care aimed at keeping seniors healthy and out of the hospital and nursing homes, will increase dramatically. Additionally, for the first time, by 2035 there will be more Americans over the age of 65 than under the age of 18. This will result in a seismic shift in consumer spending patterns for both goods and services.

2

Artificial Intelligence and Robotics

AI will allow the next “great leap forward” in productivity and economic growth. In a few years, AI will turn millions of business owners into programmers because the next big programming language will be English. The use of robotics and automation will accelerate as the pool of available workers is growing much more slowly than demand. Increased demand for healthcare will drive a need for in-home technology, both AI and robotics, to supplant human caregivers.

3

Deglobalization and a manufacturing renaissance

We expect to see both U.S. onshoring of manufacturing and new supply chain alliances forming mainly between western democracies vs. eastern totalitarian governments. Not all alliances will be cleanly along ideological lines however, as natural resources are not distributed uniformly across the globe.

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