

# THE ECONOMY AT A GLANCE

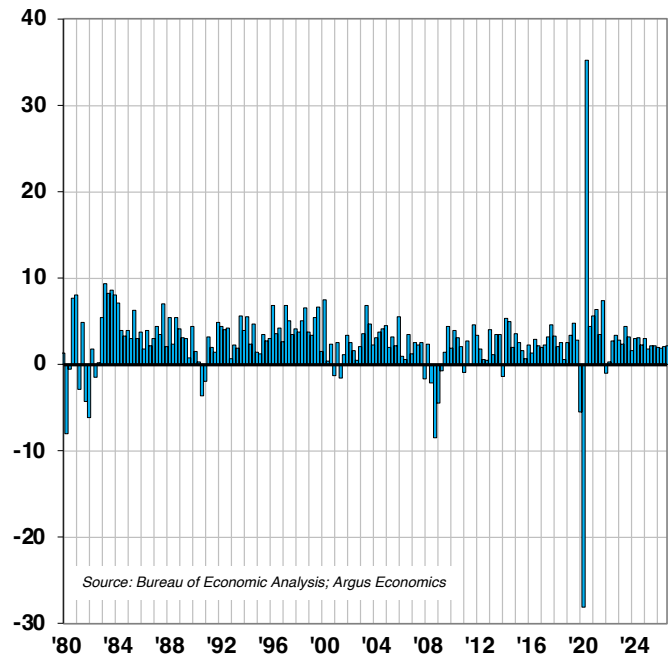
## ECONOMIC HIGHLIGHTS

February 24, 2025  
 Vol. 92, No. 28

### FORECASTING 2% GDP GROWTH IN 2026

With unemployment of just 4% and 4Q24 Personal Consumption posting its strongest gain of the year (up 4.2%), the U.S. economy is on a better trajectory than we expected. We are boosting our 2025 GDP forecast to 2.3% growth from 2.1% and are initiating a 2026 forecast of 2.0%. We are raising our 1Q25 growth forecast to 3.0% from 1.7%. Yes, there are things to worry about, including nettlesome inflation, mortgage rates near 7%, and persistent economic pressure on lower-income households. But spending on durable goods jumped 12% in the fourth quarter on top of 7.6% growth in 3Q. Another sign of consumer strength is that holiday sales rose a strong 4%. For 2025, we expect consumer spending to moderate. We expect State and Local government spending to slow slightly and Federal spending to slow notably. With consumers still strong, we still expect imports to exceed exports, creating a drag on GDP. We expect Private Domestic Investment will improve to 2.4% growth in 4Q25 from a 5.6% decline in 4Q24. We expect investment in Intellectual Property will remain strong and hope that the prospect for a friendly tax environment and easier regulations will spur investment. In 2026, we expect consumers will pull their weight. We expect the trade balance and government spending to be a drag on growth. We are looking for housing to grow faster than GDP and are hoping that investments in Nonresidential Structures and Equipment will also drive growth.

### GDP TRENDS & OUTLOOK (% CHANGE)

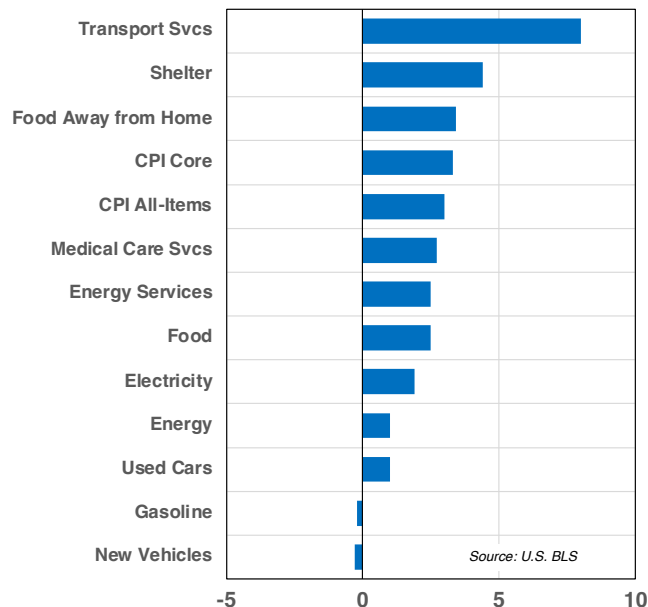


# ECONOMIC HIGHLIGHTS (CONTINUED)

## CHANGES TO FED FUNDS OUTLOOK

Based on persistent pricing pressures at both the consumer and producer levels, we are adjusting our outlook for Federal Reserve activity in 2025. We now look for two rate cuts in the second half of the year, versus our prior forecast for three. Two recent inflation reports both indicated that overall pricing pressures remain well below the peak rates in summer 2022, but also confirmed that inflation remains above the Fed’s target of 2.0%. Let’s first look at the Consumer Price Index. The news here generally was not good, as the annualized number ticked higher from last month (3.0% versus 2.9% and 2.7% two months ago). According to the latest CPI report, the core inflation rate (ex-food and energy) also ticked higher, to 3.3% from 3.2% the prior month. The other inflation report was the Producer Price Index. PPI measures pricing trends farther up the supply chain, at the manufacturing level. Here, the news was also generally negative. The PPI final demand annual rate through January was 3.5%, compared 2.1% in September and 1.0% in January 2024. PPI Intermediate demand rates were substantially higher, in the 6%-9% range. We expect pricing pressures to again ease as the housing market cools due to high mortgage rates, supplies of new vehicles are replenished, and the price of oil stays below \$90 per barrel.

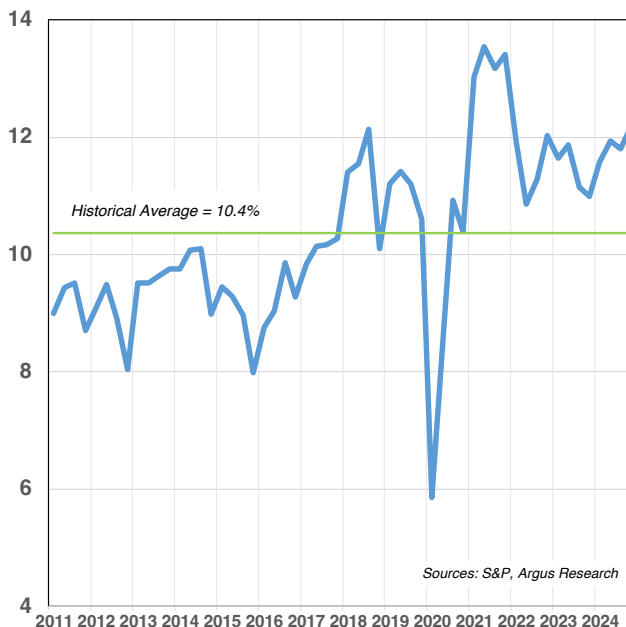
## CONSUMER INFLATION FACTORS (% CHANGE Y/Y)



## PROFIT MARGINS WIDENED IN 4Q

There are three drivers to EPS growth: higher sales, a wider operating margin, and a reduced share count. A decline in shares outstanding is the lowest-quality driver of EPS growth. Higher sales are the highest quality, especially when those sales are driven by an increase in volume. Margin management is in the middle. Consistently wider margins, quarter after quarter, are often a sign of a good management team, which should over time grow revenues faster than costs. That’s a bit of a tall order in periods of high inflation, which raises the Cost of Goods Sold, and high interest rates, which result in higher financing costs. What’s more, there’s a cap to margins as they don’t rise indefinitely. In 4Q, the S&P 500 operating margin is on target to widen by 40 basis points quarter over quarter to 12.2%, and there’s still room before margins peak at around 13.5%-14.0%. This result fits into our outlook for a modest widening for the S&P 500 operating margin in 2025, taking into account an expected negative drag from tariffs, and for EPS growth in the 12% range for the year.

## S&P OPERATING MARGIN TRENDS (%)

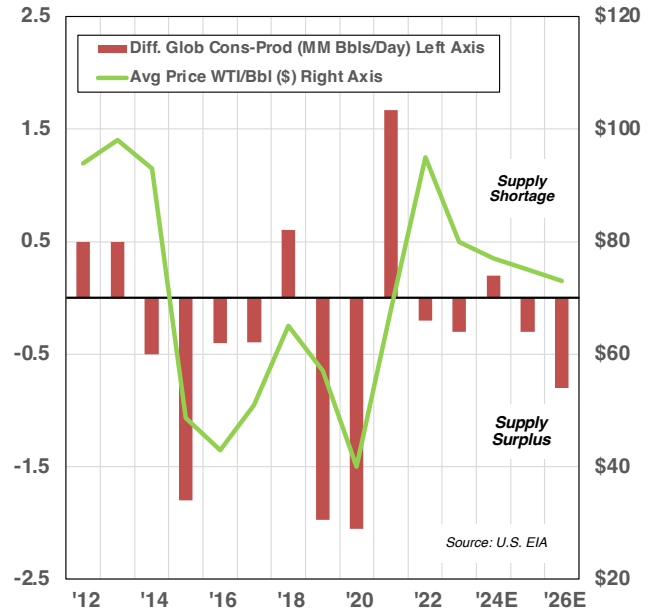


# FINANCIAL MARKET HIGHLIGHTS

## OIL PRICES LIKELY TO TREND LOWER

The price of a barrel of the crude oil benchmark grade West Texas Intermediate has fluctuated between \$65 and \$80 over the past year. Oil prices are down sharply from the \$115-120 level, touched back in 1H22 when Russia invaded Ukraine. For 2025, we are anticipating an average price of \$75, up slightly from current levels but lower compared to \$77 in 2024, \$80 in 2023 and \$95 in 2022. Our forecast trading range for the year is \$65-\$85. The core drivers behind oil prices over the long term come from Econ 101: supply and demand. According to the U.S. Energy Information Administration, there will be an excess supply of oil in 2025: global consumption is estimated at 104.1 million barrels per day, while global production is estimated at 104.4 million barrels. Early forecasts for 2026 also call for supply to exceed demand, which likely will provide a ceiling for oil prices. Of course, there are always wild cards from geopolitical developments. The growth path of the Chinese economy also plays an outsized role in the direction of oil prices, and growth in India eventually may have a greater impact than it does today. That said, absent wild cards, the global supply-demand outlook suggests that the days of triple-digit oil prices are in the rear-view mirror as the world economy pivots toward cleaner energy.

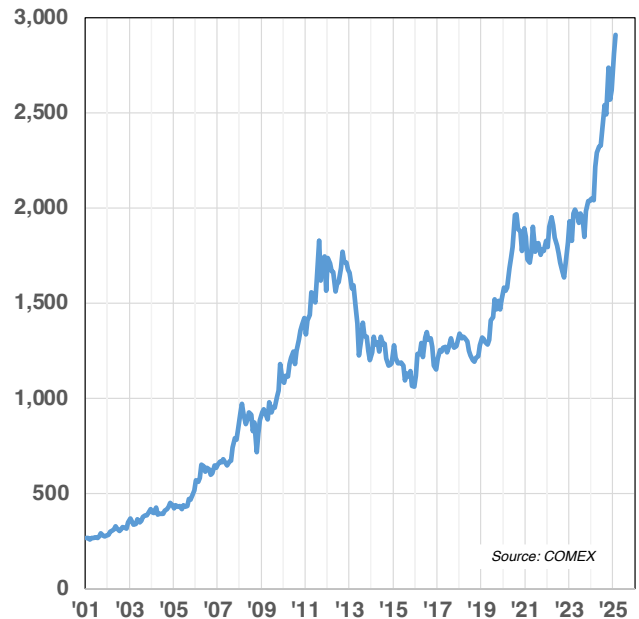
OIL PRICE OUTLOOK



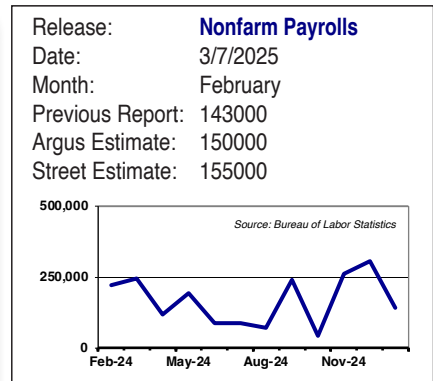
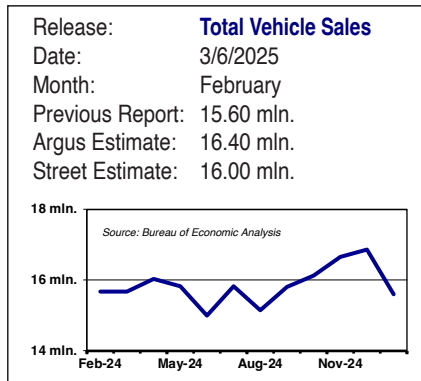
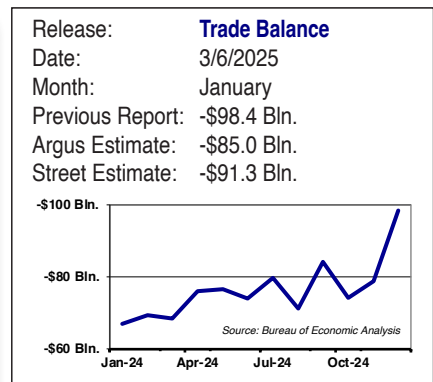
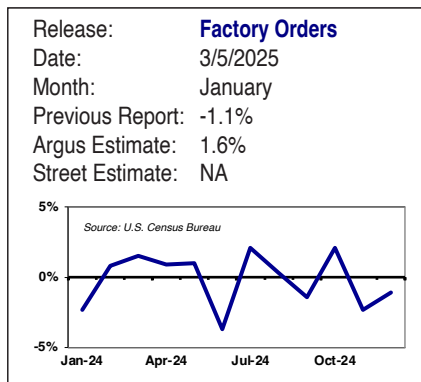
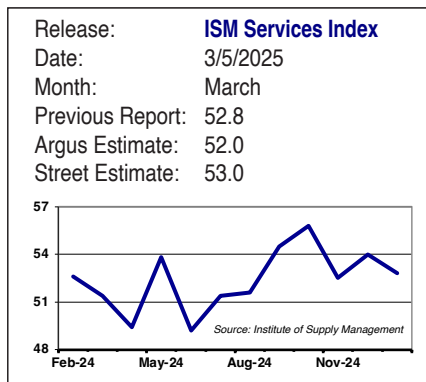
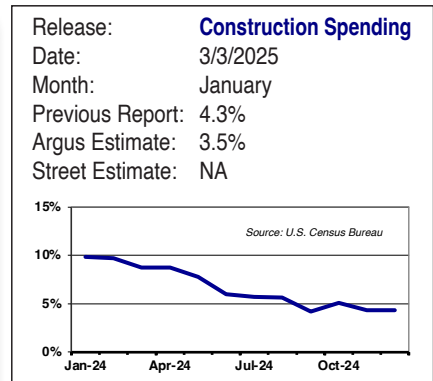
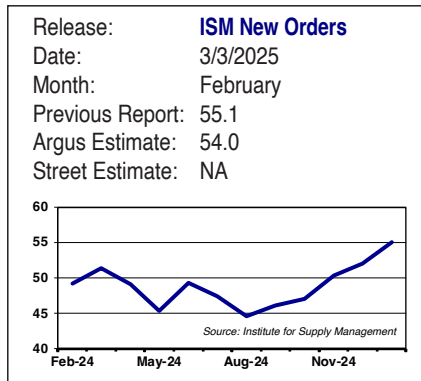
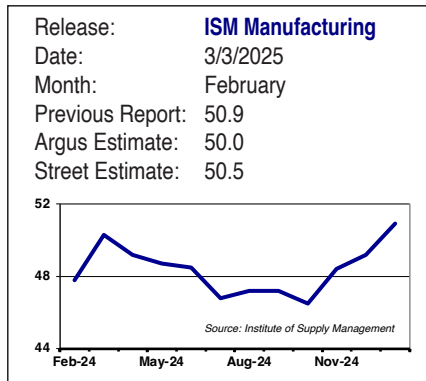
## GOLD PRICES AT PEAK

When global economic conditions become unpredictable, investors often flock to gold. The yellow metal currently is trading above \$2,900 per ounce, up 14% for the year and at the highest level in the past 25 years. Gold has been on an upward arc since the start of the pandemic, when the spot price for an ounce of gold jumped 33% in six months and broke through \$2,000. Gold also spiked in 2022 due to the war in Ukraine. Over the past year, gold has jumped another 40%-plus, driven in part by global uncertainty over tariffs. The current price of gold reflects the perceived safety of hard assets amid the global conflicts, as well as expectations for lower U.S. interest rates, which tend to weaken the dollar (the currency in which gold is priced). The outlook for interest-rate cuts also helps gold, as lower rates reduce the risk for a global economic recession and thus a potential decline in gold purchased for jewelry. Looking ahead, our forecast trading range for gold in 2025 is \$3,200-\$2,500 and our average price forecast for the year is \$3,000. As long as geopolitics and global economic uncertainty are part of the market conversation, gold is likely to remain at levels well above historical averages.

GOLD PRICE (\$ PER OUNCE)

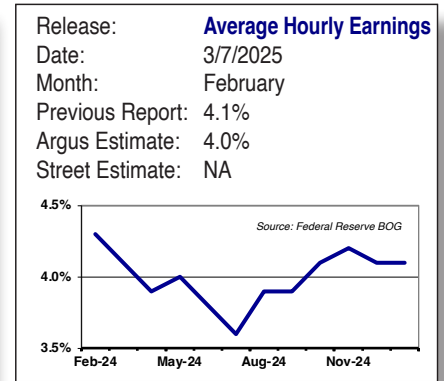
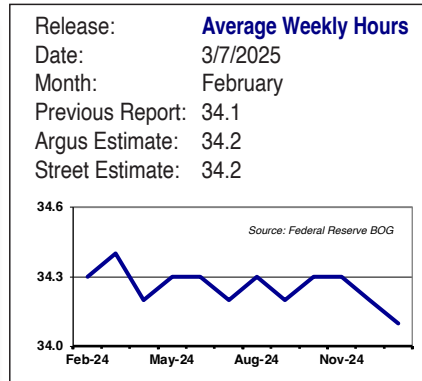
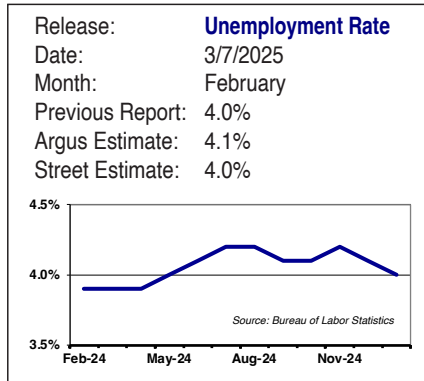


# ECONOMIC TRADING CHARTS & CALENDAR



*Previous Week's Releases and Next Week's Releases on next page.*

# ECONOMIC TRADING CHARTS & CALENDAR (CONTINUED)



## Previous Week's Releases

| Date   | Release              | Month         | Previous Report | Argus Estimate | Street Estimate | Actual |
|--------|----------------------|---------------|-----------------|----------------|-----------------|--------|
| 25-Feb | Consumer Confidence  | February      | 105.3           | 101.0          | 102.8           | 98.3   |
| 26-Feb | New Home Sales       | January       | 698K            | 675K           | 690K            | NA     |
| 27-Feb | GDP Annualized QoQ   | 4Q "2nd est." | 2.3%            | 2.3%           | 2.3%            | NA     |
|        | GDP Price Index      | 4Q "2nd est." | 2.2%            | 2.2%           | NA              | NA     |
|        | Durable Goods Orders | January       | -3.7%           | 7.0%           | NA              | NA     |
| 28-Feb | PCE Deflator         | January       | 2.6%            | 2.5%           | 2.5%            | NA     |
|        | PCE Core Deflator    | January       | 2.8%            | 2.7%           | 2.6%            | NA     |
|        | Personal Income      | January       | 5.3%            | 5.0%           | NA              | NA     |
|        | Personal Spending    | January       | 5.7%            | 5.5%           | NA              | NA     |

## Next Week's Releases

| Date   | Release                  | Month    | Previous Report | Argus Estimate | Street Estimate | Actual |
|--------|--------------------------|----------|-----------------|----------------|-----------------|--------|
| 12-Mar | Consumer Price Index     | February | 3.0%            | NA             | NA              | NA     |
|        | CPI ex-Food & Energy     | February | 3.3%            | NA             | NA              | NA     |
| 13-Mar | PPI Final Demand         | February | 3.5%            | NA             | NA              | NA     |
|        | PPI ex-Food & Energy     | February | 3.6%            | NA             | NA              | NA     |
| 14-Mar | U. of Michigan Sentiment | March    | 64.7            | NA             | NA              | NA     |

## Disclaimer

---

Argus Research Co. (ARC) is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc. (AIC), is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc. The information contained in this research report is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. In addition, this content is not prepared subject to Canadian disclosure requirements. This report is not an offer to sell or a solicitation of an offer to buy any security. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this report constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock. Argus Investors' Counsel (AIC), a portfolio management business based in New York, NY, is a customer of Argus Research Co. (ARC), also based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products. Recipients of the Research reports in Singapore should contact the Intermediary of the Research Reports in respect to any matters arising from, or in connection with, the analysis of the report. Where the recipient is not an accredited, expert or institutional investor as defined by the Securities and Futures Act, the Intermediary accepts legal responsibility for the contents of Research Reports in respect of such recipient in accordance with applicable law. When reports are distributed by Intermediaries in Singapore, the Intermediary, and not Argus Research, is solely responsible for ensuring that the recipients of the Research Reports understand the information contained in the Research Reports and that such information is suitable based on the customer's profile and investment objectives. Laws and regulations of other countries may also restrict the distribution of this report. Persons in possession of this document should inform themselves about possible legal restrictions and observe them accordingly. This content is not prepared subject to Canadian disclosure requirements.

