

# THE ECONOMY AT A GLANCE

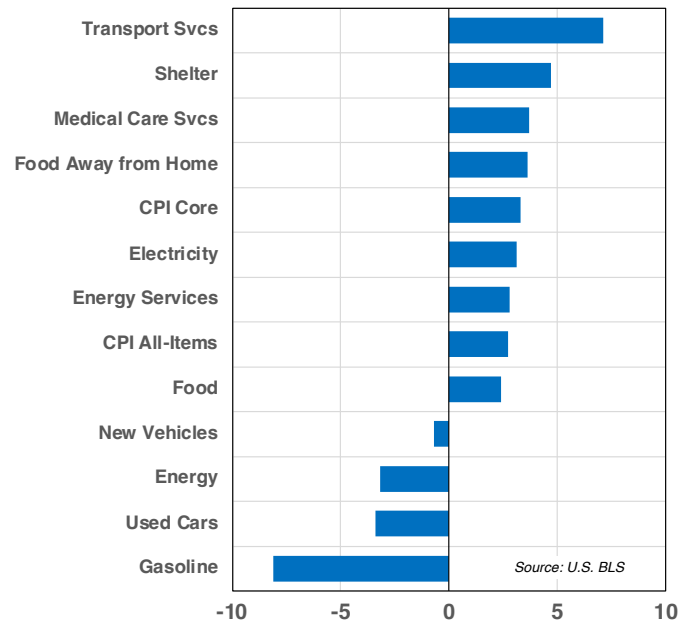
## ECONOMIC HIGHLIGHTS

December 30, 2024  
 Vol. 91, No. 188

### INFLATION STAYS STUBBORN

Two important inflation reports were released recently. Both indicated that overall pricing pressures remain well below the peak rates in 2022. But both also confirmed that inflation remains above the Fed's target of 2.0%. Let's first take a deeper dive into the Consumer Price Index. There were some positive results here, even though the annualized headline number ticked higher from the previous month (2.7% versus 2.6%). According to the latest report, the core inflation rate (ex-food and energy) was steady at 3.3%. That good news was accompanied by monthly pricing slowdowns in important categories such as Transportation Services and Shelter. If these two categories continue to slow, the overall rate should turn lower as well. The other report was the Producer Price Index, which measures pricing trends farther up the supply chain, at the manufacturing level. Here, we saw mixed trends. The PPI final demand annual rate through November was 3.0%, compared to 2.4% in October and 1.9% in September. But the PPI intermediate demand rates for both processed and unprocessed goods were outright negative. We expect pricing pressures to continue to ease as the housing market cools, supplies of new vehicles are replenished, and the price of oil stays below \$90 per barrel. The Fed lifted the fed's fund rate from 0.0% to above 5.25% in 2022-2023, and those hikes evidently did their part in reducing inflationary pressures.

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

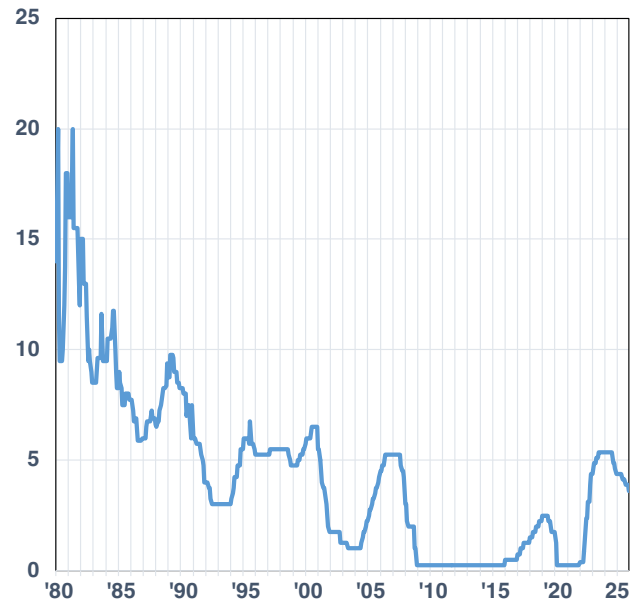


# ECONOMIC HIGHLIGHTS (CONTINUED)

## FED LIKELY TO SLOW RATE CUT PACE

The Fed wrapped up its Open Market Committee meeting and, as expected, lowered the federal funds rate by another 25 basis points. But based on forecasts released along with the rate decision, it looks like the Fed will refrain from lowering rates aggressively in the months ahead. While the Fed has shifted its emphasis from solely fighting inflation, it is not yet able to completely focus on stimulating the economy. Indeed, the economy is not in dire need of lower rates. Yet. The market's reaction to the Fed's signals indicates that investors and traders are more concerned that the current level of high rates will push the economy closer to recession. In our opinion, that doesn't have to happen. Going into the meeting, our forecast for 2025 was that the Fed would cut rates three times. We are holding to that forecast, but now think the Fed will space out those cuts over the full year instead of the first half. The cuts would bring the fed funds rate down toward 3.5%, which, assuming inflation resumes its trek toward 2.0%, will return real, inflation-adjusted rates toward historical averages.

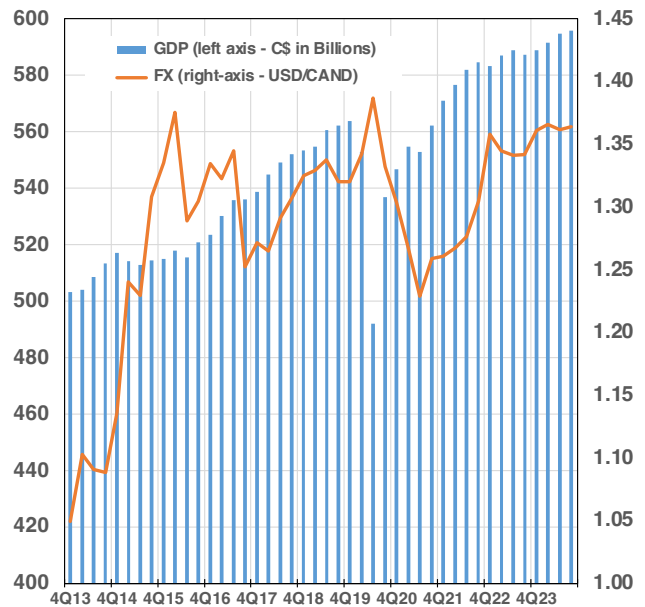
FEDERAL FUNDS TARGET RATE & FORECASTS (%)



## BANK OF CANADA LOWERS TARGET RATE AGAIN

In late October, Canada's Minister of Immigration, Refugees and Citizenship announced a 2025-2027 plan that was forecast to result in a marginal population decline of 0.2% in both 2025 and 2026 due to restrictions on temporary residents, international students, and foreign workers. Above-trend population growth in Canada of 3% in 2024 and 2025 put pressure on housing, infrastructure, and social services, as well as unemployment, which is running at about 6.8%. The new policies should ease the unemployment rate. In a positive development, the country has made progress bringing down inflation, allowing the Bank of Canada to reduce its target for overnight interest rates by another 50 basis points to 3.25%. Lower rates should help on a number of fronts, and already appear to be boosting housing activity and consumer spending. The Canadian economy could use the help, after growing by a less-than-expected 1% in 3Q. One wildcard is that the incoming Trump administration is considering tariffs on Canadian exports to the U.S., complicating Canada's central bank forecasting. Among our Canadian coverage, we believe the Financial sector remains among the better opportunities for Canadian stocks, as a rebound in loan growth from lower rates and an expected improvement in capital markets activity helps revenues.

CANADIAN ECONOMIC TRENDS

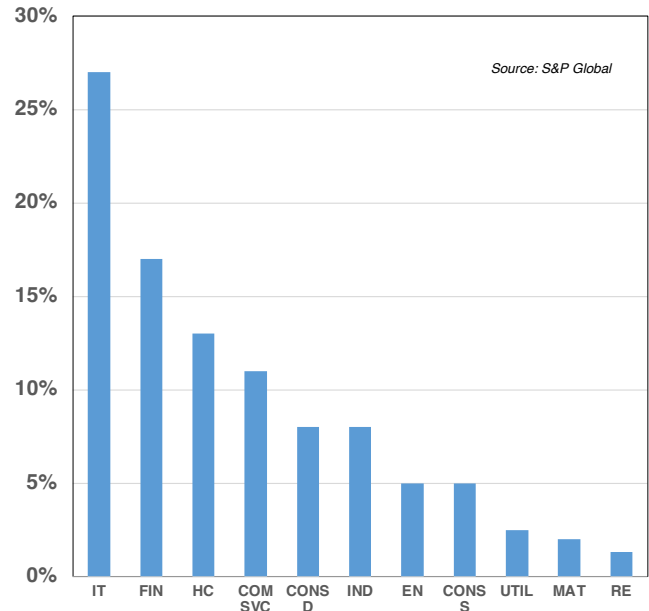


# FINANCIAL MARKET HIGHLIGHTS

## NOT ALL SECTORS ARE EQUAL

When it comes to investing in sectors of the S&P 500, we think it makes sense to focus on a few key groups that can actually make a difference in terms of earnings and portfolio performance. The Real Estate sector which for about 2% of S&P 500 capitalization, but is expected to contribute only 1% of S&P 500 EPS during the upcoming earnings period. Materials is another 2% market weight that generates a thin 2% of total earnings. We don't think clients should be spending a lot of time getting these sectors exactly right. The groups that really make a difference are likely to be Information Technology, which is expected to account for 27% of S&P 500 earnings (and grow at a low double-digit rate year over year); and Financial and Healthcare, which are expected to account for 17% and 13%, respectively. Perhaps not surprisingly, these are three economic sectors in which the U.S. enjoys competitive advantages versus other nations. At the next tier, the Industrial, Consumer Discretionary, and Communication Services all appear in line, with market-cap weights and earnings contributions in the 9%-10% range. Energy punches above its weight, accounting for less than 4% of total market capitalization but generating 5% of S&P 500 profits.

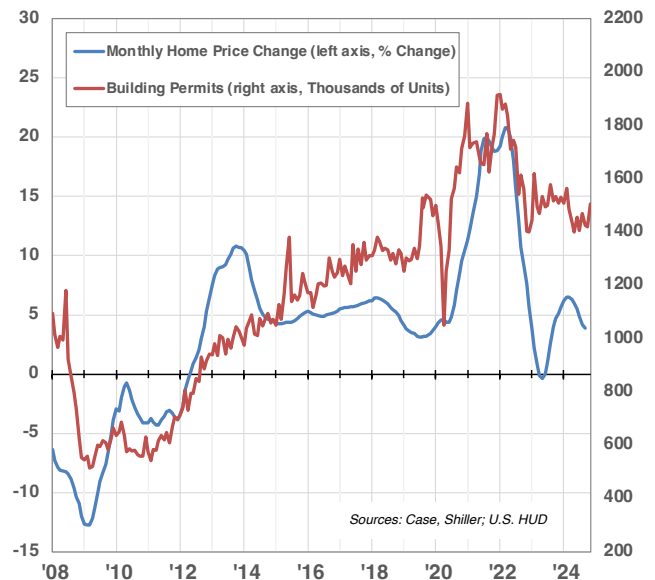
## SECTOR OPERATING EARNINGS CONTRIBUTION



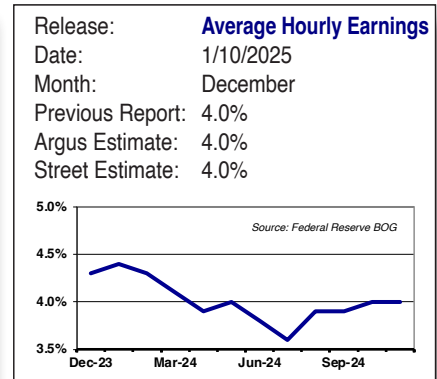
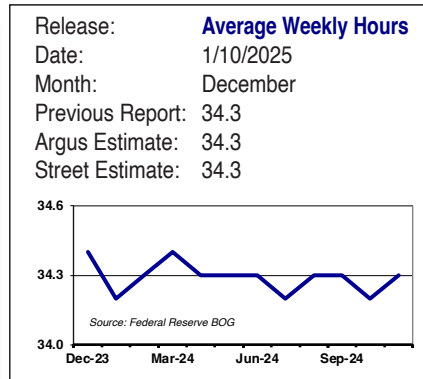
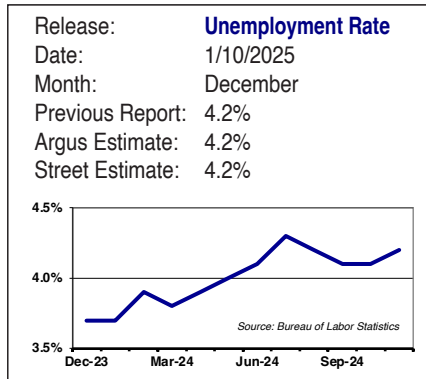
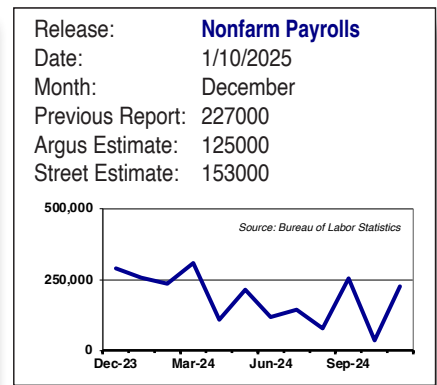
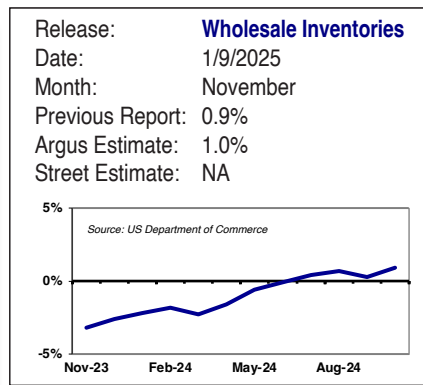
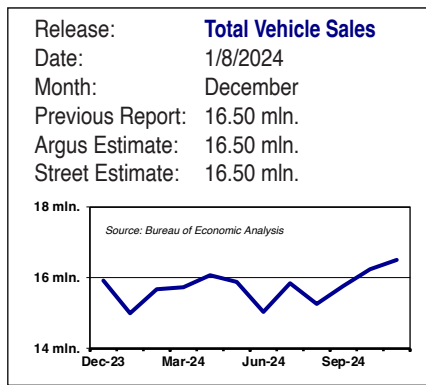
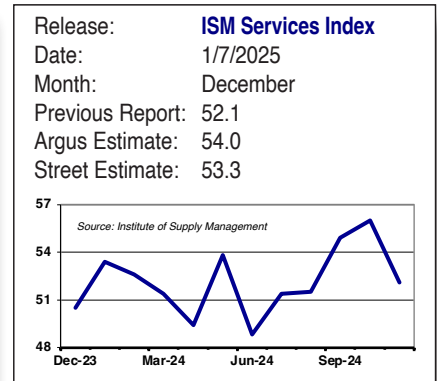
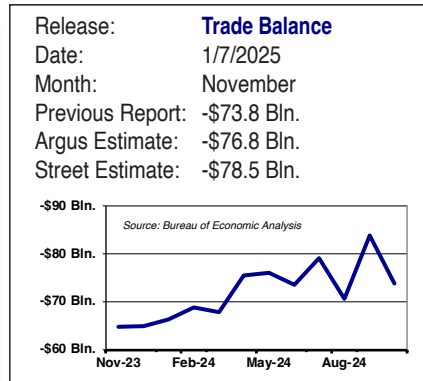
## HOPEFUL ON HOUSING

The expectations from homebuilders for future sales climbed to a nearly three-year high in December, according to the National Association of Homebuilders. This bullish outlook kept the NAHB/Wells Fargo Housing Market Index at 46, unchanged from November. Expectations for the next six months rose to 66 in December from 63 in November. A reading below 50 indicates that more builders see conditions as poor than good. The current conditions component of the index held steady at 48, while traffic from prospective buyers ticked down to 31. Traffic may be a useful indicator as the spring selling season approaches. We believe it will take a decline in the 30-year mortgage rate to about 6% to stimulate a significant improvement in traffic. The Fannie Mae Home Purchase Sentiment Index has risen by 10.7 points over the last year to 75.0 in November. The percentage of respondents who say it is a good time to buy a home increased last month, but sentiment remains very low at 23%. Two other findings from Fannie's survey are that consumers expect their personal financial situation to improve over the next 12 months and they expect the pace of home price growth to slow. We remain upbeat on home builders because demographics point to strong demand amid a decades-long shortage of affordable homes.

## HOUSING MARKET TRENDS

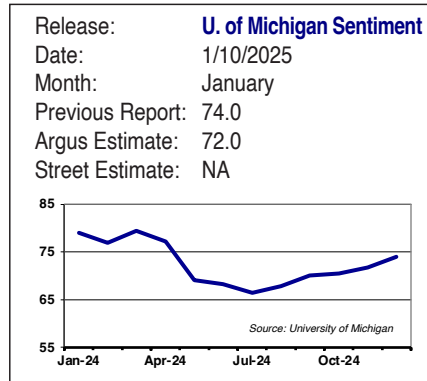


# ECONOMIC TRADING CHARTS & CALENDAR



*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
2-Jan	Construction Spending	November	5.0	4.4	NA	NA
3-Jan	ISM Manufacturing	December	48.4	48.6	NA	NA
	ISM New Orders	December	50.4	50.5	NA	NA

## Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
14-Jan	PPI Final Demand	December	3.0%	NA	NA	NA
	PPI ex-Food & Energy	December	3.4%	NA	NA	NA
15-Jan	Consumer Price Index	December	2.7%	NA	NA	NA
	CPI ex-Food & Energy	December	3.3%	NA	NA	NA
16-Jan	Retail Sales	December	3.8%	NA	NA	NA
	Retail Sales ex-autos	December	3.2%	NA	NA	NA
	Import Price Index	December	1.3%	NA	NA	NA
	Business Inventories	November	2.4%	NA	NA	NA
17-Jan	Industrial Production	December	-0.9%	NA	NA	NA
	Capacity Utilization	December	76.8%	NA	NA	NA
	Housing Starts	December	1,289K	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.

