Metals Industry Report

First Quarter of 2025

Metals Demand to Grow in 2025, With Tariffs the Major Risk

- **The price of gold increased in 2024 but has retreated entering 2025 paired with the dollar strength.**
- **As expected, iron and steel prices fell toward the end of 2024. Demand for nonferrous metals turned out to be more resilient than expected in the second half of 2024.**
- **PNC expects gold and nonferrous metal prices to increase this year, while iron and steel prices will be flat to down.**
- **Higher US tariffs and potential retaliation are the primary risk to metals demand in 2025.**

Gold extended its price gains in the second half of 2024 but has lost momentum since October. The US dollar, however, rose to a 25-month high at the end of the year. Both gained in value over the year as the appetite for safe assets increased under subdued economic momentum in other advanced economy, including the eurozone. The divergence between gold and the dollar at the end of 2024 reflected a shift in market expectations for the fed funds rate that moved the dollar and gold prices in opposite directions. The expected pace of Federal Reserve easing has slowed, meaning a limited number of fed funds rate cuts in 2025, due to a stronger-than-expected US economy and potentially higher inflation during the upcoming Trump administration. In Chart 1 the safe-haven currency, the dollar, climbed over 7% in the fourth quarter of 2024 while the price of an ounce of gold pulled back below $2,700.

Outside of the resilient US economy that is now preparing for a higher-for-longer rate trajectory, China's economic slowdown persisted into late 2024, dragged by its problematic housing downturn. The People's Bank of China (PBOC)'s stimulus moves proved ineffective in reversing weak housing demand and failed to prevent the Chinese real estate sector from deteriorating at the end of the year. As expected, steel prices retreated in the second half of the year given sluggish construction activity in China. In Chart 2, China's construction Purchasing Managers' Index decreased to a four-year low in November 2024 and fell into contractionary territory (below 50). Construction business activity, after seasonal adjustments, improved in December 2024 from last month, but is still down from 2023. Areas of commodity building starts and under construction were also firmly down in 2024 from 2023 (Chart 3), further weighing on iron and steel demand and prices in the second half of last year.

Unlike iron and steel, prices of nonferrous metals remained resilient in 2024. Although this is down from the peak in 2022, the Producer Price Index (PPI) for nonferrous metals rose almost 10% in November 2024 on a year-ago basis, according to the Bureau of Labor Statistics (BLS). Even lower mining costs in the second half of 2024 did not prevent prices of some metals, like aluminum, for rising at the end of the year.

The resilient US labor market and still-robust wage growth that is running ahead of inflation will continue to support demand for auto sales (Chart 4) and demand for auto-related metals like aluminum, copper, and

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nickel. PNC expects the Federal Open Market Committee (FOMC) to cut the federal funds rate twice, by 25 basis points each time, in the first half of 2025 (Chart 5). This would bring the fed funds rate to a range of between 3.75% to 4.00% by mid-2025, with the rate expected to remain there into 2026. Consumption of durable goods like household equipment, electronics, and home furnishings will continue to grow, albeit at a slower pace given the lagged impacts from tighter monetary policy in 2023 and early 2024 on housing and purchases of big-ticket consumer items (Chart 5). However, PNC expects more favorable credit conditions in 2025 will benefit private business investment, driving a recovery in fixed capital spending and metals demand (Chart 6). Demand for and prices of nonferrous metals will therefore continue to rise in 2025 along with autos sales, private business investment and durable goods consumption. However, there is little upside potential for iron and steel prices in 2025 under slower Chinese economic growth and temporarily weak US construction spending. A lower fed funds rate will likely support gold prices instead of the dollar in 2025 as inflation continues to ease, and US economic growth will normalize at around 2% over the next few years.

Risks to the outlook in 2025 are tilted to the downside, particularly potential higher tariffs under President-elect Trump. PNC expects an improvement in international trade flows this year with a gradual economic recovery overseas supported by further policy interest rate cuts in the eurozone, the UK, and China. Nonetheless, higher US tariffs would increase metals price and weigh on metals demand, while retaliation by US trading partners would also weigh on US exports.

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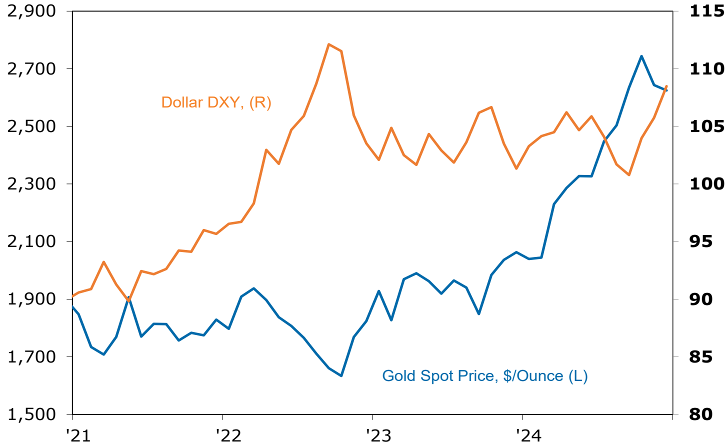
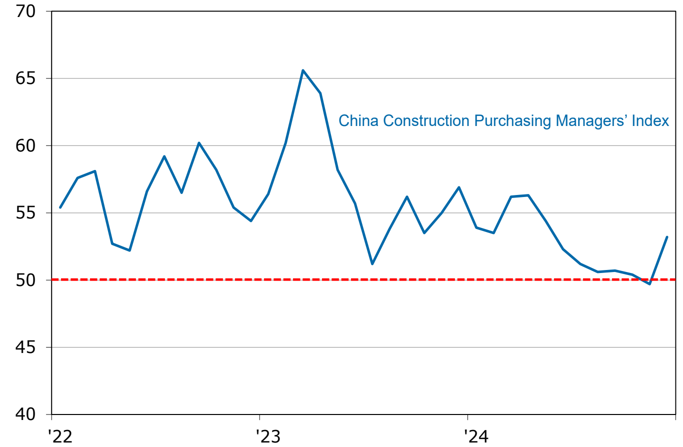
Chart 1. After Current Fallback, Gold Prices Expected To Rise in 2025



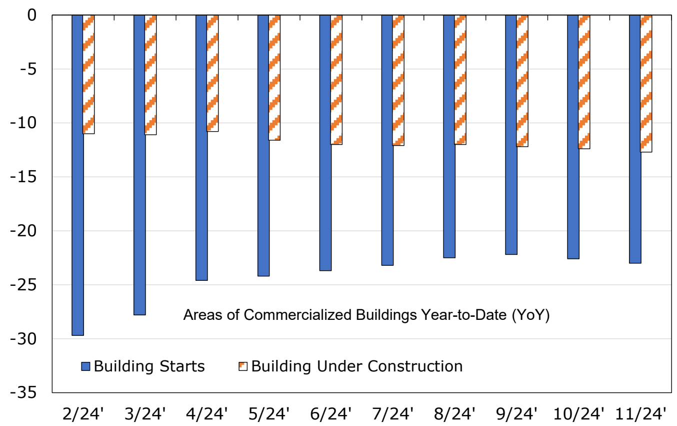
Source: Bloomberg

Chart 2. PBOC Stimulus Measures Fail to Prevent Chinese Housing Downturn



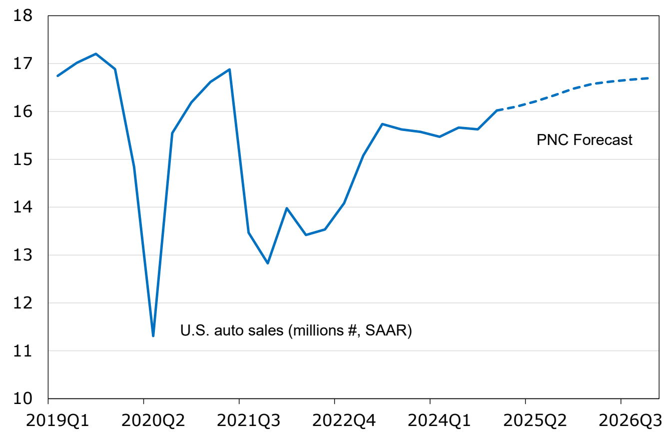
Source: China Federation of Logistics & Purchasing, NBS

Chart 3. Chinese Building Starts Softened in 2024 Upon Continued Economic Woes



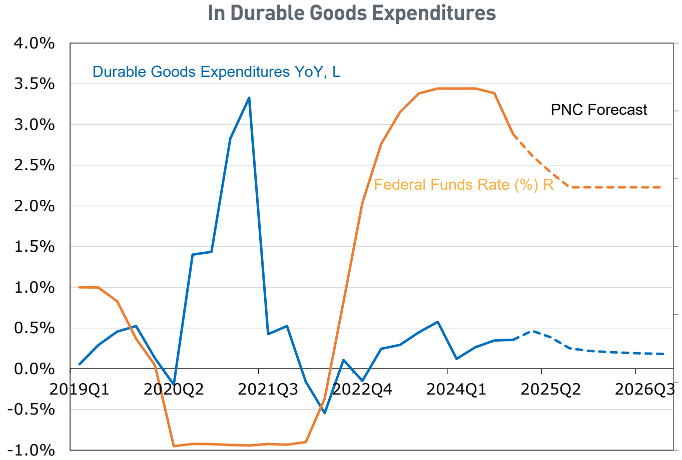
Source: National Bureau of Statistics of China

Chart 4. US Auto Sales Expected To Gradually Pick Up in 2025 and 2026



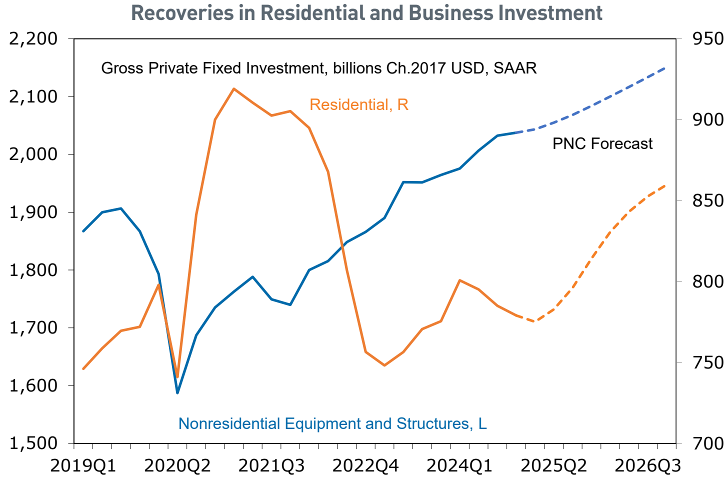
Source: Moody's Analytics, PNC Economics December 2024 Forecast

Chart 5. Restrictive Monetary Policy Will Limit Growth In Durable Goods Expenditures



Source: BEA, PNC Economics December 2024 Forecast

Chart 6. Better Credit Conditions Will Support Near-Term Recoveries in Residential and Business Investment



Source: BEA, PNC Economics December 2024 Forecast