

## Economic & Market Watch Intelligence Brief

### Briefing

- Profit margins (profit divided by sales) vary widely over time and across industries. The average among U.S. companies has held relatively steady at around 7%. But repeated polls show that Americans tend to overestimate profit margins (**Figure 1**).
- Who ultimately pays for a tariff? Do sellers raise their prices so that consumers end up paying, or do sellers hold their prices steady and pay for the tariff out of their profits? The less profit a company earns, the less able it will be to pay for the tariff and so the more likely it is that it will pass on the tariff to customers in the form of higher prices.
- When it comes to paying for tariffs out of profits, alternatives matter. The average profit margin in real estate development is 11% (**Figure 1**). To attract investors, developers must deliver a return that is at least as large as the return investors can obtain elsewhere. Consider a tariff on construction materials. Even if an 11% profit margin were large enough that developers could pay for the tariff from their profits, they won't if doing so makes them less attractive to investors.
- Government-run enterprises rely, to varying degrees, on taxpayer support. Because their existence doesn't depend on turning a profit, they will tend to generate negative profit margins (**Figure 2**).

### Chart of the Week

#### Where Does Your Dollar Go at Walmart?



### Commentary

Since 1971, the Reason Foundation has polled Americans about their views on the economy. Over the years, Americans have said they believe that U.S. companies have profit margins between 28% and 37%. The truth is quite different.

In 2024, the average U.S. corporation earned about a 7% net profit margin. Grocery stores average just 1% to 3%. Walmart has a profit margin of around 2% (**Chart of the Week**). Big Oil? ExxonMobil's profit margin is less than 10%. Airlines? Delta comes in at 7%, United 6%, Southwest 2% and American Airlines 1%. Why do Americans overestimate companies' profit margins by a factor of five?

First, we tend to get mad about high margins and so we notice and discuss examples like Merck (27%) and Eli Lilly (23%). But we don't get mad about low margins and so tend to ignore examples like GM (3%) and FedEx (5%). Second, we see the dollars we hand over to companies but not the dollars they spend. It's easy to estimate an airline's revenue by counting your fellow passengers and multiplying by your ticket price. What we don't readily see are the dollars the airline paid to make the flight happen. Third, billion-dollar profits dazzle us, causing us to miss the context. For example, Amazon's profit was \$59 billion in 2024—more than the entire economy of the state of Wyoming. But it took \$637 billion in sales to generate that profit, which left Amazon with a 9% profit margin.

### Snapshots

Figure 1. Average Profit Margin by Industry (2024)

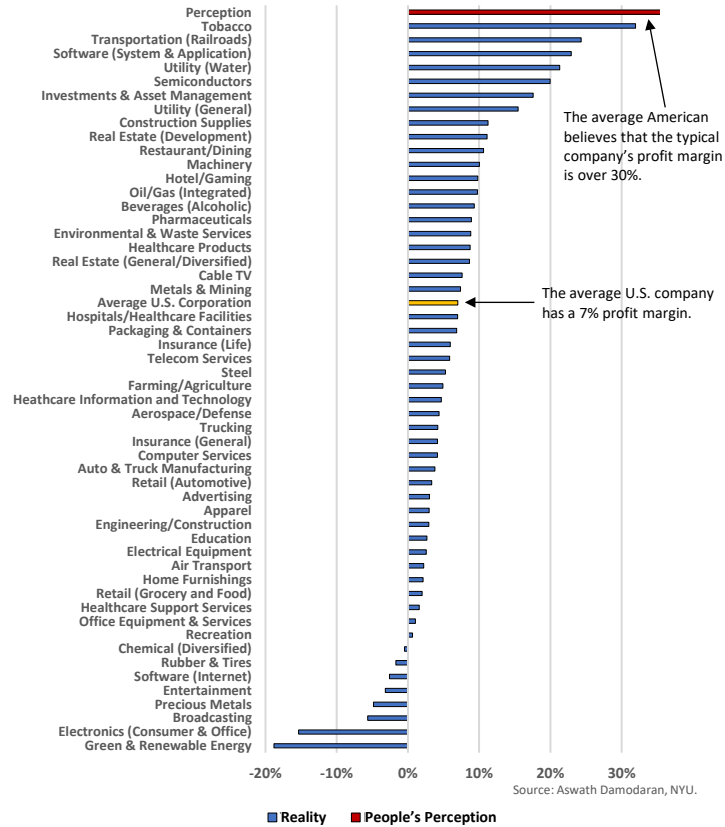
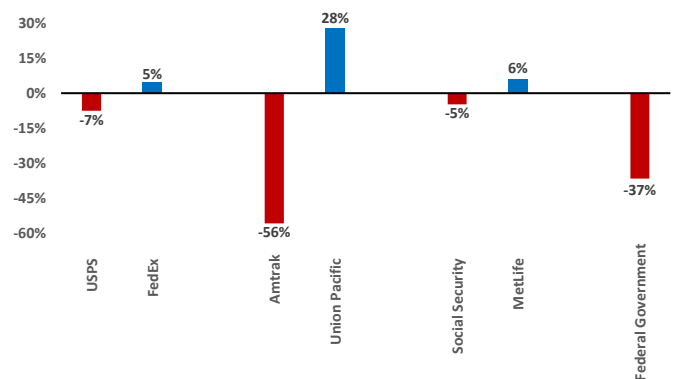


Figure 2. Profit Margins for Public vs. Private Enterprises



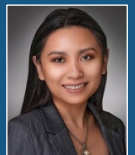
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## Economic &amp; Market Watch Dashboard

## Key Indicators

INTEREST RATES<sup>1</sup>

	Current	2025			2026		
		Q3	Q4	Q1	Q2	Q3	
Fed Funds Target <sup>2</sup> (%)	4.50	4.25	4.00	3.75	3.75	3.50	
SOFR (%)	4.36	4.07	3.83	3.60	3.42	3.20	
2Y UST (%)	3.93	3.71	3.58	3.50	3.45	3.42	
5Y UST (%)	3.97	3.91	3.82	3.77	3.74	3.71	
10Y UST (%)	4.40	4.29	4.23	4.20	4.18	4.16	
30Y UST (%)	4.95	4.75	4.69	4.66	4.62	4.60	

## ECONOMY

	Current	2025			2026		
		Q3	Q4	Q1	Q2	Q3	
PCE Inflation (YoY %)	2.3	3.5	3.1	2.7	2.4	2.4	
CPI Inflation (YoY %)	2.7	3.6	3.3	2.8	2.6	2.5	
Real GDP (QoQ %)	(0.5)	0.7	0.8	1.4	1.8	1.9	
Unemployment (%)	4.1	4.4	4.5	4.6	4.6	4.6	
Consumer Spending (QoQ %)	0.5	0.6	0.8	1.4	1.7	1.8	
Industrial Production (YoY %)	0.7	0.9	0.8	1.1	0.6	0.7	

## Equities &amp; Currency

	Current	Year ago
DJIA	44,902	40,589
Nasdaq	21,183	17,358
S&P 500	6,393	5,459
US Dollar Index	\$1,204.55	\$1,257.08

## Commodities

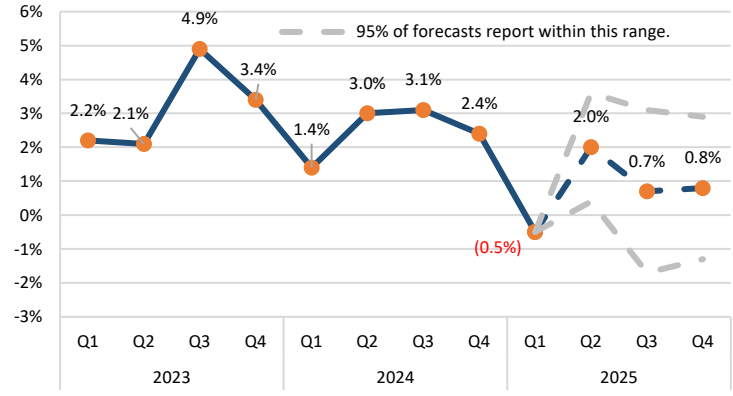
	Current	Year ago
Crude Oil (Per Barrel)	\$66.82	\$77.16
Natural Gas (Per MMBtu)	\$3.07	\$2.01
Coal (Per Short Ton)	\$14.30	\$13.90
Gold (Per Ounce)	\$3,307.00	\$2,381.00
Corn (Per Bushel)	\$393.75	\$394.50
Soybean (Per Bushel)	\$988.25	\$1,077.50

## Industry

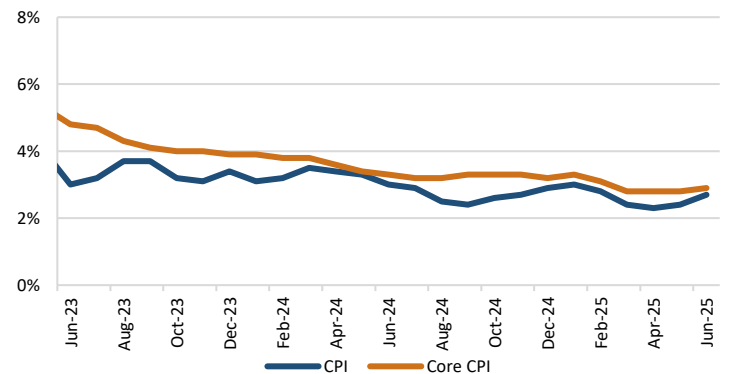
	Current	Year ago
Natural Gas Storage (Billion Cubic Feet)	3,075	3,249
U.S. Daily Power Consumption (MWh)	14,589,885	13,692,762
World Container Index (Per 40ft)	\$2,517	\$5,806

## Forecasts

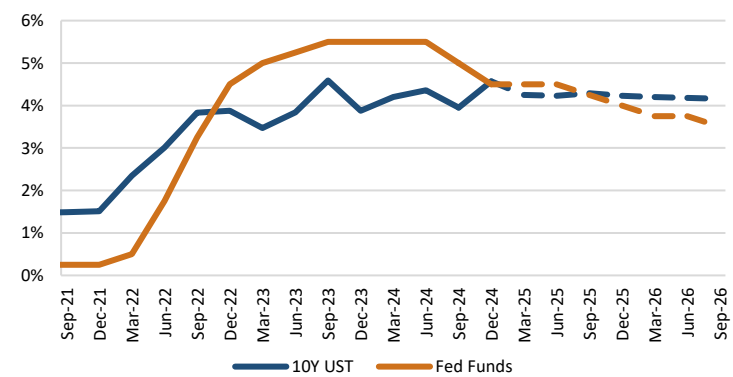
## Real GDP Growth Trend



## Headline vs. Core Inflation



## 10-Year US Treasury vs. Fed Funds Trend

<sup>1</sup> Unless otherwise indicated, forecasts are from the Blue Chip Professional Forecasters.<sup>2</sup> Target rate forecast is based on futures market contracts.

Source: Blue Chip Financial Forecasts, Trading Economics, Moody's Analytics, Statista, Trading Economics, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration, U.S. Treasury Department, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, International Monetary Fund, World Bank, University of Michigan, The Conference Board.

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