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2nd Quarter GDP (Initial)

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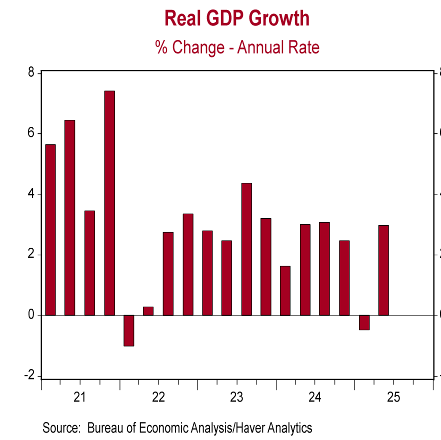
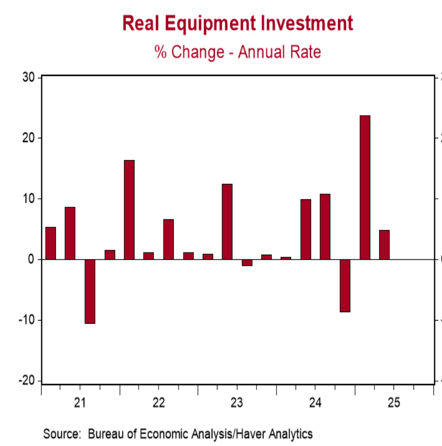
- Real GDP grew at a 3.0% annual rate in Q2, beating the consensus expected 2.6%.
- The largest boost to real GDP growth in Q2 came from net exports, due to a huge drop in imports of goods. Personal consumption as well as business investment in equipment and intellectual property also contributed positively to real GDP. The largest drag came from inventories (which were depleted by the drop in imports), while commercial construction and home building also declined.
- Personal consumption, business fixed investment, and home building, combined, rose at a 1.2% annual rate in Q2. We refer to this as "core" GDP.
- The GDP price index increased at a 2.0% annual rate in Q2 and is up 2.5% from a year ago. Nominal GDP (real GDP plus inflation) rose at a 5.0% annual rate in Q2 and is up 4.5% from a year ago.





Implications: Real GDP growth rebounded sharply from the decline in the first quarter, growing at a 3.0% rate in Q2. However, this is not a signal of a new era of prosperity or that the underlying trend is now 3.0%. Instead, it's largely a reflection of how businesses reacted to the introduction of tariffs this year. President Trump promised early this year to raise tariffs. In response, businesses were front-running tariffs in Q1, rapidly filling orders from their foreign suppliers and putting some orders from US producers on the backburner. As a result, we got lower real GDP in Q1. But once higher tariffs arrived, businesses slowed orders from abroad and shifted some back to US producers, resulting in a rebound in real GDP. Putting these two quarters together, real GDP is up at a modest 1.2% annual rate in the first half of the year, below the 2.0% average of the past twenty years. In terms of the details for the second quarter, net exports added 5.0 percentage points to the growth rate in Q2, the largest contribution for any quarter since at least the 1940s (after Q1 was a record drag). Meanwhile, with fewer imports, inventories were a 3.2 point drag on growth in Q2. The good news is that inventories are very likely to help support growth in the third quarter. We like to follow what we call "Core" Real GDP, which is consumer spending, business fixed investment, and home building, and excludes the most volatile categories like government purchases, inventories, and international trade. Core GDP grew at a modest 1.2% annual rate in Q2, a 1.6% annual rate in the first half of the year, but is up a respectable 2.4% from a year ago. Perhaps the best news is more evidence that the Federal Reserve has room to modestly cut rates. Nominal GDP (real GDP plus inflation) is up 4.5% from a year ago, compared to 5.7% in the year ending in the second quarter of 2024. The drop in the growth rate of nominal GDP signals that monetary policy has been tight and the 4.5% trend is already very close to the Fed's target for short-term rates. Note that GDP prices rose at a 2.0% rate in Q2, right at the Fed's inflation target. If the Fed doesn't cut rates, we are headed for inflation below the 2.0% target. In other news this morning, ADP reported private payrolls up 104,000 in July, consistent with our forecast for an increase in nonfarm payrolls of 132,000 to be reported on Friday. On the housing front, home prices declined slightly in May, the second consecutive drop. The national Case-Shiller index fell 0.3% for the month while the FHFA index declined 0.2%. However, both indexes remain higher than a year ago, the Case-Shiller by 2.3% and the FHFA by 2.8%. We expect very modest price gains in the year ahead.

2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-25	Q1-25	Q4-24	Q3-24	4-Quarter Change
Real GDP	3.0%	-0.5%	2.4%	3.1%	2.0%
GDP Price Index	2.0%	3.8%	2.3%	1.9%	2.5%
Nominal GDP	5.0%	3.2%	4.8%	5.0%	4.5%
PCE	1.4%	0.5%	4.0%	3.7%	2.4%
Business Investment	1.9%	10.3%	-3.0%	4.0%	3.2%
Structures	-10.3%	-2.4%	2.9%	-5.0%	-3.8%
Equipment	4.8%	23.7%	-8.7%	10.8%	7.0%
Intellectual Property	6.4%	6.0%	-0.5%	3.1%	3.7%
Contributions to GDP Growth (p.pts.)	**Q2-25**	**Q1-25**	**Q4-24**	**Q3-24**	**4Q Avg.**
PCE	1.0	0.3	2.7	2.5	1.6
Business Investment	0.3	1.4	-0.4	0.6	0.4
Residential Investment	-0.2	-0.1	0.2	-0.2	-0.1
Inventories	-3.2	2.6	-0.8	-0.2	-0.4
Government	0.1	-0.1	0.5	0.9	0.3
Net Exports	5.0	-4.6	0.3	-0.4	0.1

Source: Bureau of Economic Analysis