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Q2 2025 GDP – 1st Estimate: Q2 Data Flip The Script

- › The BEA's initial estimate shows real GDP grew at an annualized rate of 3.0 percent in Q2 2025
- › Consumer spending and a smaller trade deficit were the main drivers of Q2 growth; a drawdown in inventories acted as a significant drag

The BEA's initial estimate shows real GDP grew at an annual rate of 3.0 percent in Q2, shy of our forecast of 3.3 percent growth and ahead of the consensus forecast of 2.6 percent growth. As we discussed in this week's *Economic Preview*, we expected the sizable swings seen in net exports and business inventory accumulation in the Q1 data to be reversed in the Q2 data, and while that was the case, for each measure the magnitude of the change in Q2 was larger than our forecast anticipated. Additionally, we expected top-line real GDP growth to outperform growth in real private domestic demand (combined business and household spending adjusted for price changes), reversing what we saw in the Q1 data. While that proved to be the case, growth in real private sector demand – an annual rate of 1.2 percent – was better than our forecast anticipated, largely owing to business fixed investment faring better than we expected. This would be a good time to add our usual caveat, which is that in any given quarter the initial estimate of GDP is based on highly incomplete source data, and as the holes in the data are filled in and prior estimates are revised, the estimate of GDP can change materially. The main series to keep an eye on in that regard will be business inventory accumulation and net exports, which were easily the biggest swing factors in the initial estimate of Q2 GDP. In short, the GDP data for the first half of 2025 are basically a wash, with the Q1 data materially impacted by businesses and households acting to preempt anticipated increases in tariff rates and the Q2 data reflecting payback. The high frequency data remain somewhat volatile and uneven, and at this point we don't expect much from either real GDP or real private domestic demand in Q3, but as we get through the end of 2025 and into 2026, we think both will be back on paths toward what we see as their longer-term trend rates of growth.

Real consumer spending grew at an annual rate of 1.4 percent in Q2, a bit less than the 1.5 percent growth our forecast anticipated but nonetheless adding 0.98 percentage points to top-line real GDP growth. This follows particularly listless growth of 0.5 percent in Q1, and growth in spending on both goods and services picked up in Q2. Motor vehicle sales were particularly robust in April, to the extent that despite a sharp slowdown in unit sales of new vehicles in May and June, real outlays on motor

vehicles grew at an annualized rate of 16.3 percent in Q2. Discretionary services spending picked up a bit after a tepid Q1, but growth in this segment during the first half of 2025 was significantly slower than had been the case over the prior several quarters.

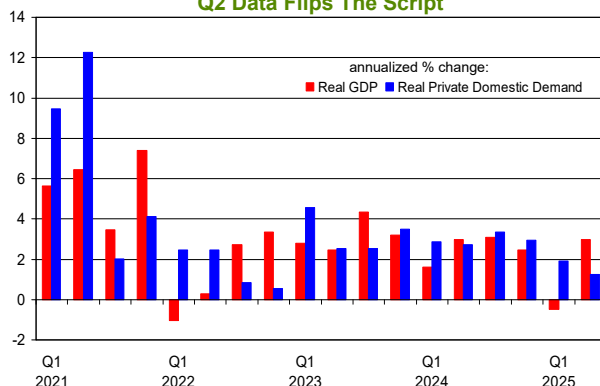
Real business fixed investment grew at an annual rate of 1.9 percent in Q2, topping our expectations after annualized growth of 10.3 percent in Q1. Recall that real spending on equipment and machinery grew at an annual rate of 23.7 percent in Q1, driven by spending on information processing equipment and nondefense aircraft and parts. The former held up better in Q2 than we had anticipated, though we will note that the monthly data on orders for core capital goods, which lead the business investment series in the GDP data, were weak during Q2. This sets the stage for real spending on equipment and machinery to contract in Q3.

Recall that real imports of goods grew at an annual rate of 51.6 percent in Q1 as orders were pulled forward in anticipation of higher tariffs. The corresponding widening in the trade deficit knocked 4.61 percentage points off the quarterly change in real GDP in Q1. During the second quarter, real imports of goods declined at an annual rate of 35.3 percent, leading to a material narrowing in the trade deficit which added 4.99 percentage points to Q2 real GDP growth. Had exports of U.S. goods not fallen at an annual rate of 5.0 percent in Q2, the trade deficit would have been even smaller. We'll note that the BEA did not have the final June trade data at their disposal when producing the initial estimate of Q2 GDP, so this is one category in which we could see potentially sizable revisions in the second estimate. We'll also note that with further announcements of higher tariffs, subsequent pauses, and striking of trade deals, trade flows have remained somewhat volatile, with many retailers rushing to place orders for holiday season merchandise. This raises the odds that the seasonally adjusted data for Q3 and Q4 will be somewhat disjointed which, in turn, could impact the reads on real GDP growth.

That businesses were so aggressive in building inventories to get around higher tariffs added 2.59 percentage points to Q1 real GDP growth. Those stocks were drawn down sharply during Q2, with the change knocking 3.17 percentage points off Q2 real GDP growth.



Q2 Data Flips The Script



Contribution To Real GDP Growth

