

# U.S. Data Review

- Q2 GDP: surge in net exports provides boost to headline; growth in private domestic demand decelerates
- Inflation measures: GDP price index subdued while the core price index for personal consumption expenditures exceeded expectations

**Lawrence Werther**

 lawrence.werther@us.daiwacm.com  
 +1-212-612-6393

**Brendan Stuart**

 brendan.stuart@us.daiwacm.com  
 +1-212-612-6172

## Q2 GDP

- The U.S. economy grew at a 3.0 percent annualized rate in Q2, a pivot from the 0.5 percent contraction in the preceding quarter. Although the latest result exceeded the Bloomberg median expectation of an advance of 2.6 percent, the apparent strength reflected a large contribution from net exports amid an ongoing recalibration in international trade on account of the Trump administration's tariff agenda. Domestic demand was solid, pointing to an economy remaining on a growth track, but the underlying performance lagged topline results.

- Turning first to international trade, net exports swung widely for the second consecutive quarter, adding 5.0 percentage points to growth in Q2 after acting as a sharp constraint previously (-4.6 percentage point in Q1). With respect to trade flows, imports into the U.S. plunged 30.3 percent, annual rate, in the latest quarter after a spurt of 37.9 percent in Q1 reflecting firms' efforts to

rush goods into the country ahead of the imposition of tariffs. U.S. exports also eased in Q2 (-1.8 percent) after a pickup of 0.4 percent previously. All told, disruptions to previous patterns of trade flows could persist for some time as the world adapts to the Trump administration's policies.

- Inventory investment, which jumped in tandem with imports in the prior quarter, subtracted 3.2 percentage points from growth in Q2 (the largest drag since 2020-Q2). Moreover, after the swings in H1, we suspect that firms will manage inventories cautiously in coming months amid evidence of a slowing in domestic demand.
- Private domestic final purchases (i.e., final sales to private domestic purchasers), frequently cited by Fed officials as a barometer for the domestic economy, rose 1.2 percent, annual rate, in Q2 – down from 1.9 percent in Q1 and well below Q4/Q4 growth of 3.0 percent in 2024 (charts, next page). Relatedly, consumer spending rose at a 1.4 percent annualized rate, up from 0.5 percent in Q1 but also off the brisk 3.1 percent Q4/Q4 pace last year. Business fixed investment also advanced (+1.9 percent, annual rate). Growth of 4.8 percent in equipment spending, which followed a surge of 23.7 percent in Q1 tied to tariff front-running, was joined by a jump of 6.4 percent in investment in intellectual property products. Contrastingly, business-related construction dropped 10.3 percent, the third contraction in the past four quarters. Residential construction also was soft, with the decline of 4.6 percent the fourth drop in the past five quarters.

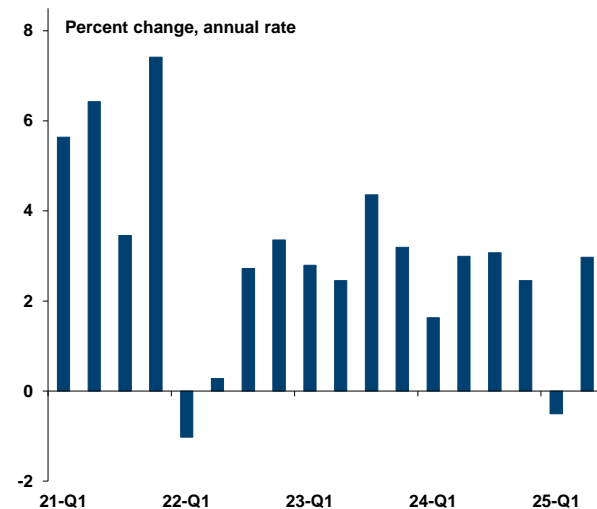
### GDP and Related Items\*

	24-Q4	25-Q1	25-Q2
1. <b>Gross Domestic Product</b>	2.4	-0.5	3.0
2. <b>Personal Consumption Expenditures</b>	4.0	0.5	1.4
3. <b>Nonresidential Fixed Investment</b>	-3.0	10.3	1.9
3a. <b>Nonresidential Structures</b>	2.9	-2.4	-10.3
3b. <b>Nonresidential Equipment</b>	-8.7	23.7	4.8
3c. <b>Intellectual Property Products</b>	-0.5	6.0	6.4
4. <b>Change in Business Inventories (Contribution to GDP Growth)</b>	-0.8	2.6	-3.2
5. <b>Residential Construction</b>	5.5	-1.3	-4.6
6. <b>Total Government Purchases</b>	3.1	-0.6	0.4
6a. <b>Federal Government Purchases</b>	4.0	-4.6	-3.7
6b. <b>State and Local Govt. Purchases</b>	2.5	2.0	3.0
7. <b>Net Exports (Contribution to GDP Growth)</b>	0.3	-4.6	5.0
7a. <b>Exports</b>	-0.2	0.4	-1.8
7b. <b>Imports</b>	-1.9	37.9	-30.3
<b>Additional Items</b>			
8. <b>Final Sales</b>	3.3	-3.1	6.3
9. <b>Final Sales to Domestic Purchasers</b>	3.0	1.5	1.1
10. <b>Gross Domestic Income</b>	5.2	0.2	--
11. <b>Average of GDP &amp; GDI</b>	3.8	-0.1	--
12. <b>GDP Chained Price Index</b>	2.3	3.8	2.0
13. <b>Core PCE Price Index</b>	2.6	3.5	2.5

\* Percent change SAAR, except as noted.

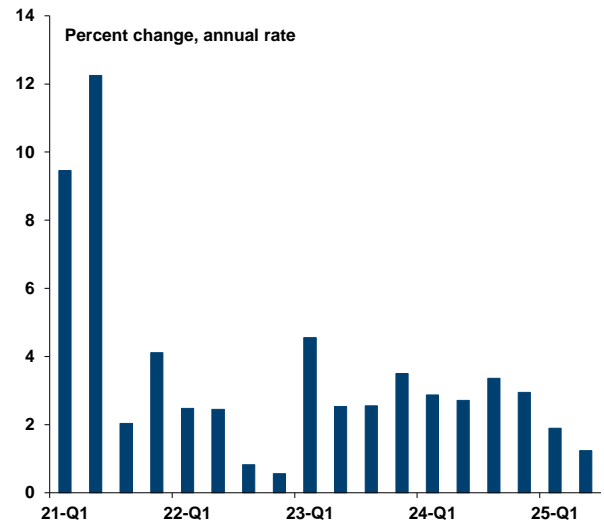
Source: Bureau of Economic Analysis via Haver Analytics

## GDP Growth



Source: Bureau of Economic Analysis via Haver Analytics

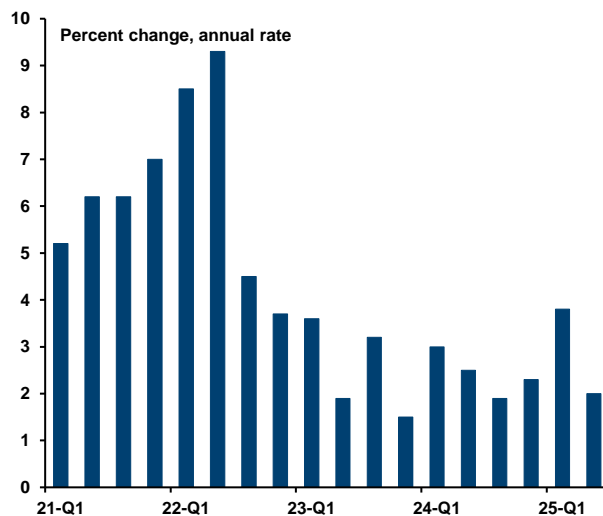
## Final Sales to Private Domestic Purchasers



Source: Bureau of Economic Analysis via Haver Analytics

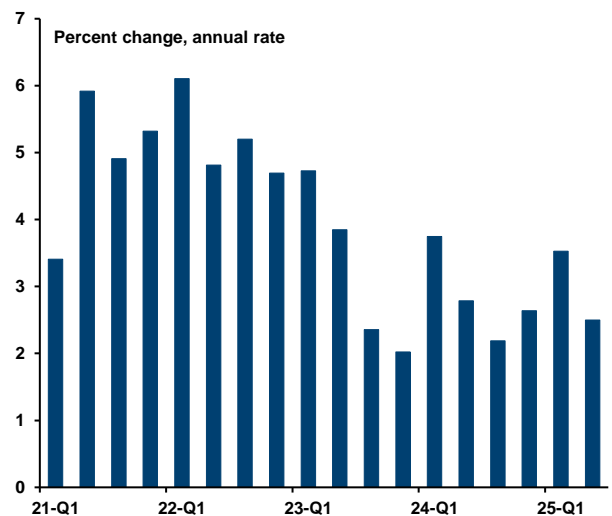
- Government spending rose 0.4 percent in Q2. An increase in investment of 3.0 percent at the state and local level offset a decline of 3.7 percent in federal expenditures and investment (where a pickup of 2.2 percent in defense spending was offset by a drop of 11.2 percent in nondefense expenditures). Evidently, the Trump administration's efficiency-related cutbacks are having a notable impact on output (although they are far too small to meaningfully alter the long-term fiscal strains faced by the United States).
- Inflation data was favorable despite possible pressure from tariffs in coming months. The GDP price index advanced 2.0 percent (versus 2.2 percent expected). The headline price index for personal consumption expenditures rose 2.1 percent in Q2, down from 3.7 percent previously. The core measure increased 2.5 percent, one percentage point slower than the advance in Q1 (charts, below).
- All told, the Q2 GDP report showed an economy that remained on a growth trajectory, although domestic demand was less impressive than implied by the headline print. We suspect that uncertainty tied to the Trump administration's policies could continue to weigh on activity over the balance of the year, although we remain hopeful that eventual trade deals for all major trading partners, gradual further easing in monetary policy, and tax certainty for households and corporations on account of the One Big Beautiful Bill Act will serve as positive catalysts for the economy in early 2026.

## GDP Chained Price Index



Source: Bureau of Economic Analysis via Haver Analytics

## Core PCE Price Index



Source: Bureau of Economic Analysis via Haver Analytics