

5-30-25

DP

Hit by trade wars in the first quarter 2025, US economy contracts 0.2%

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FIRST DECLINE Hit by trade wars, U.S. economy drops 0.2% in the first quarter Hit by trade wars, U.S. economy drops 0.2% in the first quarter N THREE YEARS Hit by trade wars, U.S. economy drops 0.2% in the first quarter People pack their purchases into their vehicles at Costco Wholesale store in Burbank, Calif., in April.

DAMIAN DOVARGANES — ASSOCIATED PRESS FILE BY PAUL WISEMAN THE ASSOCIATED PRESS WASHINGTON>>

The U.S. economy shrank at a 0.2% annual pace from January through March, the first drop in three years, as President Donald Trump's trade wars disrupted business, the government said Thursday in a slight upgrade of its initial estimate.

First-quarter growth was brought down by a surge in imports as companies in the United States hurried to bring in foreign goods before the president imposed massive import taxes. The January-March drop in gross domestic product — the nation's output of goods and services — reversed a 2.4% gain in the fourth quarter of 2024.

Imports grew at a 42.6% pace, fastest since third-quarter 2020, and shaved more than 5 percentage points off GDP growth. Consumer spending also slowed sharply. And federal government spending fell at a 4.6% annual pace, the biggest drop in three years.

Trade deficits reduce GDP. But that's mainly a matter of mathematics. GDP is supposed to count only what's produced domestically. So imports — which the government counts as consumer spending in the GDP report when you buy, say, Costa Rican coffee — have to be subtracted out to keep them from artificially inflating domestic production.

The first-quarter import surge likely won't be repeated in the April-June quarter and therefore shouldn't weigh on GDP. The per-gallon price is illuminated on the pump at a Costco warehouse gasoline station in Thornton.

DAVID ZALUBOWSKI — ASSOCIATED PRESS FILE From January through March, business investment surged 24.4%. An increase in inventories — as businesses stocked up ahead of the tariffs — added more than 2.6 percentage points to first-quarter GDP growth.

A category within the GDP data that measures the economy's underlying strength rose at a 2.5% annual rate from January through March, down from 2.9% in the fourth quarter of 2024 but still solid. This category includes consumer spending and private investment but excludes volatile items like exports, inventories and government spending.

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Trump's tariffs have added considerable uncertainty to the economic outlook. He has imposed 10% tariffs on almost every country on earth in addition to levies on steel, aluminum and autos. A federal court on Wednesday blocked the 10% tariffs as well as specific taxes on Canadian, Mexican and Chinese imports, saying the president had overstepped his authority.