



AI Investments Drive Rebound In U.S. Growth

GDP expands by 2%, though consumers tap the brakes on spending for goods

BY HARRIET TORRY

The U.S. economy expanded at an annual rate of 2% in the first quarter as businesses invested heavily in artificial intelligence, rebounding from a fourth quarter dented by a government shutdown.

At the same time, the economy didn't expand as fast as economists expected, weighed down by softer consumer spending growth.

Economists surveyed by The Wall Street Journal were expecting a stronger, 2.2% seasonally and inflation-adjusted gross domestic product increase for the January-to-March quarter. The measure, reported by the Commerce Department, captures the value of all goods and services produced in the economy.

The first quarter saw a strong increase in business spending on categories tied closely to AI, like equipment and intellectual property products, underscoring just how much AI has become an engine for the nation's economy. Overall business investment increased at a 10.4% annual rate in the quarter, the strongest growth in nearly three years.

"Even after accounting for the fact that most computer equipment is imported, AI investment seems like it accounted for about half of the overall GDP growth in the first quarter," said Oliver Allen, an economist at Pantheon Macroeconomics.

Imports of computer-related equipment in the latest quarter helped contribute to a 1.3-percentage-point drag on headline growth from net exports, which is the difference between what the U.S. sells to foreigners and what it buys.

Consumer spending, the economy's main engine, rose at a 1.6% pace in the first quarter, slower than the 1.9% pace in the fourth quarter of last year. Consumers shelled out more on services like healthcare, but their spending on goods declined slightly.

Some analysts still saw spending as solid, considering the shock at the fuel pumps following the launch of the Iran war and particularly bad winter weather. Also, the personal-consumption expenditures price index climbed to 4.5% in the first quarter, compared with an increase of 2.9% the prior quarter.

Still, pressure is expected to grow as people keep funneling take-home pay into their gas tanks. The U.S. and Israel launched attacks on Iran on the last day of February, and the average price of regular gasoline has jumped about 44% since then.

But much of that increase happened beyond the scope of this GDP report. Regular fuel has averaged about \$4.11 a gallon during April, according to AAA data, up from March's \$3.67 average. Fuel costs are rising fast this week and hit a \$4.30 postwar high Thursday.

“What you have here is an AI-inspired GDP increase, that in coming quarters will see a drag,” due to the Iran war, said Joseph Brusuelas, chief economist at RSM.

A measure of underlying demand in the economy strengthened because of the strong business investment, and despite uncertainties around the war in Iran and the Trump administration’s tariff policies. That measure— known as final sales to private domestic purchasers—rose at a 2.5% rate in the first quarter, picking up from 1.8% in the prior quarter. It carves out the more volatile government, inventory and international trade data.

Spending by the federal government rose at a 9.3% rate, picking up strongly from a 16.6% contraction in the prior quarter. The fourthquarter drag was due to the record-long government shutdown that ended in November.

The GDP report is the first major economic scorecard for the January-to-March quarter.

The U.S. economy entered the year on a steady, albeit weaker, footing. Growth had slowed sharply in the fourth quarter of 2025, hurt by the government shutdown. The economy shed jobs over the final three months of the year, although payroll growth has picked up since then, averaging 68,000 jobs a month in the first quarter.

Measures of inflation and inflation expectations have also picked up in recent months, complicating the pathway for rate cuts this year by the Federal Reserve. Investors started the year expecting two rate cuts in 2026; they now see a more than 80% probability the Fed will keep interest rates on hold through December, according to CME Group data.

The GDP report came a day after Fed officials wrapped up their latest policy meeting. They voted Wednesday to hold the short-term interest-rate target steady, citing elevated inflation and low job gains.

“Developments in the Middle East are contributing to a high level of uncertainty about the economic outlook,” the Fed’s rate-setting Federal Open Market Committee said.

Major companies have largely reported strong sales and earnings in recent weeks, a sign that demand remains steady. Consumers are benefiting from higher tax refunds this filing season and are supported by a still-low unemployment rate.

Even so, some companies caution that shoppers are feeling skittish about the Iran war and high gasoline prices.

Domino’s Pizza on Monday revised down its U.S. samestore sales growth estimates. The chain said sales softened, with lower-income shoppers particularly pulling back.

Procter & Gamble, long a bellwether for the health of the U.S. consumer economy, reported higher quarterly sales last week, but warned geopolitical uncertainty and political tensions are weighing on shoppers.

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