

Economy shrinks more than expected

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WASHINGTON>> The U.S. economy shrank at a 0.5% annual pace from January through March as President Donald Trump's trade wars disrupted business, the Commerce Department reported Thursday in an unexpected deterioration of earlier estimates.

First-quarter growth was weighed down by a surge of imports as U.S. companies, and households, rushed to buy foreign goods before Trump could impose tariffs on them. The Commerce Department previously estimated that the economy fell 0.2% in the first quarter. Economists had forecast no change in the department's third and final estimate.

The January-March drop in gross domestic product — the nation's output of goods and services — reversed a 2.4% increase in the last three months of 2024 and marked the first time in three years that the economy contracted.

Imports expanded 37.9%, fastest since 2020, and pushed GDP down by nearly 4.7 percentage points.

Consumer spending also slowed sharply, expanding just 0.5%, down from a robust 4% in the fourth-quarter of last year. It is a significant downgrade from the Commerce Department's previous estimate.

Consumers have turned jittery since Trump started plastering big taxes on imports, anticipating that the tariffs will impact their finances directly.

And the Conference Board reported this week that Americans' view of the U.S. economy worsened in June, resuming a downward slide that had dragged consumer confidence in April to its lowest level since the COVID-19 pandemic five years ago.

The Conference Board said Tuesday that its consumer confidence index slid to 93 in June, down 5.4 points from 98.4 last month.

A measure of Americans' short-term expectations for their income, business conditions and the job market fell 4.6 points to 69.

That's well below 80, the marker that can signal a recession ahead.

Former Federal Reserve economist Claudia Sahm said "the downward revision to consumer spending today is a potential red flag." Sahm, now chief economist at New Century Advisors, noted that Commerce downgraded spending on recreation services and foreign travel — which could reflect "great consumer pessimism and uncertainty."

A category within the GDP data that measures the economy's underlying strength rose at a 1.9% annual rate from January through March. It's a decent number, but down from 2.9% in the fourth quarter of 2024 and from the Commerce Department's previous estimate of 2.5% January-March growth.

This category includes consumer spending and private investment but excludes volatile items like exports, inventories and government spending.

And federal government spending fell at a 4.6% annual pace, the biggest drop since 2022.

Trade deficits reduce GDP. But that's just a matter of mathematics. GDP is supposed to count only what's produced domestically, not stuff that comes in from abroad. So imports — which show up in the GDP report as consumer spending or business investment — have to be subtracted out to keep them from artificially inflating domestic production.

The first-quarter import influx likely won't be repeated in the April-June quarter and therefore shouldn't weigh on GDP. In fact, economists expect growth to bounce back to 3% in the second quarter, according to a survey of forecasters by the data firm FactSet.

The first look at April-June GDP growth is due July 30.