

Economy grew at 3.8% pace in 2nd quarter

Significant upgrade from government's previous estimate

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WASHINGTON>> An uptick in consumer spending helped the U.S. economy expand at a surprising 3.8% from April through June, the government reported in a dramatic upgrade of its previous estimate of second-quarter growth.

U.S. gross domestic product — the nation's output of goods and services — rebounded in the spring from a 0.6% first-quarter drop caused by fallout from President Donald Trump's trade wars, the Commerce Department said Thursday. The department had previously estimated second-quarter growth at 3.3%, and forecasters had expected a repeat of that figure.

The first-quarter GDP drop, the first retreat of the U.S. economy in three years, was mainly caused by a surge in imports — which are subtracted from GDP — as businesses hurried to bring in foreign goods before Trump could impose sweeping taxes on them. That trend reversed as expected in the second quarter: Imports fell at a 29.3% pace, boosting April-June growth by more than 5 percentage points.

Consumer spending rose at a 2.5% pace, up from 0.6% in the first quarter and well above the 1.6% the government previously estimated. Spending on services advanced at a 2.6% annual pace, more than double the government's previous estimate of 1.2%.

"The U.S. consumer remained a lot stronger than many thought, even in the midst of a stock market sell-off and a lot of trade uncertainty," Heather Long, chief economist at Navy Federal Credit Union, posted on social media.

A category within the GDP data that measures the economy's underlying strength came in stronger than previously reported as well, growing 2.9% from April-June, up from 1.9% in the first quarter and in the government's previous estimate. This category includes consumer spending and private investment, but excludes volatile items like exports, inventories and government spending.

But private investment fell, including a 5.1% drop in residential investment. Declining business inventories took more than 3.4 percentage points off second-quarter growth.

Spending and investment by the federal government fell at a 5.3% annual pace on top of a 5.6% drop in the first quarter.

Stephen Stanley, chief U.S. economist at Santander, noted that GDP growth averaged 1.6% in the first half of 2025 and consumer spending 1.5% — "not great but much better than initially thought."

Since returning to the White House, Trump has overturned decades of U.S. policy in support of freer trade. He's slapped double-digit taxes — tariffs — on imports from almost every country on earth and targeted specific products for tariffs, too, including steel, aluminum and autos. Trump sees tariffs as a way to protect American industry, lure factories back to the United States and to help pay for the massive tax cuts he signed into law July 4.

But mainstream economists — whose views Trump and his advisers reject — say that his tariffs will damage the economy, raising costs and making protected U.S. companies less efficient. They note that tariffs are paid by importers in the United States, who try to pass along the cost to their customers via higher prices. Therefore, tariffs can be inflationary — though their impact on prices so far has been modest.

The unpredictable way that Trump has imposed the tariffs — announcing and suspending them, then coming up with new ones — has left businesses bewildered, contributing to a sharp deceleration in hiring.

From 2021 through 2023, the United States added an impressive 400,000 jobs a month as the economy bounded back from COVID-19 lockdowns. Since then, hiring has stalled, partly because of trade policy uncertainty and partly because of the lingering effects of 11 interest rate hikes by the Federal Reserve's inflation fighters in 2022 and 2023.

Labor Department revisions earlier this month showed that the economy created 911,000 fewer jobs than originally reported in the year that ended in March. That meant that employers added an average of fewer than 71,000 new jobs a month over that period, not the 147,000 first reported. Since March, job creation has slowed even more — to an average 53,000 a month.

On Oct. 3, the Labor Department is expected to report that employers added just 43,000 jobs in September, though unemployment likely stayed at a low 4.3%, according to forecasters surveyed by the data firm FactSet.

Seeking to bolster the job market, the Fed last week cut its benchmark interest rate for the first time since December and signaled that it expected two more cuts this year. But the surprisingly strong second-quarter GDP growth may give the central bank less reason to cut rates. The Commerce Department's personal consumption expenditures (PCE) price index comes out Friday.