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U.S. Economy Had a Strong Spring

Revised data show consumer spending, business investment helped fuel growth

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Note

The latest government economic revision shows the U.S. economy was growing at a much stronger clip this spring than previously realized, powered by consumer spending.

Business investment in software and the equipment powering artificial intelligence also helped. Spending on intellectual property like research and development and software rose at a revised 15% annual rate, the most since 1999, which economists touted as a positive sign for future productivity growth.

Americans spent more than initially estimated in the second quarter on services such as restaurants, healthcare, insurance and transportation.

Separately, the Commerce Department for the first time also broke out figures showing how business spending on the AI data centers mushrooming up around the country is growing rapidly.

Overall, the government now estimates gross domestic product increased at a 3.8% seasonally and inflation-adjusted annual rate in the second quarter, up from an initial estimate of 3% made in July and a later update to 3.3%. That was the strongest quarterly growth in nearly two years. The government revises GDP estimates over time, but Thursday's update marks the biggest headline revision since the third quarter of last year.

The strong April to June quarter is a good sign, but it also predates some more re--cent mixed signals.

Retail sales, which increased at a solid clip in July and August, represent another sign of economic resilience, for example. At the same time, a --summertime hiring slowdown has raised worries about the health of the U.S. labor market. Inflation also remains higher than the Federal Reserve wants as companies deal with President Trump's new tariffs on foreign imports this year.

"Looking ahead, headwinds are building," said Gregory Daco, chief economist at EYParthenon, pointing to businesses struggling with tariff uncertainty. Absent a turnaround in labor-market momentum, consumer spending is likely to slow, he said.

The government also released updated numbers for GDP in prior years. But the government didn't change its big-picture figures for how much GDP rose from 2019 to 2024: a 2.4% annual rate.

Thursday's revision points to an even sharper whipsawing from contraction to growth in the first half of this year. The U.S. economy shrank at a revised 0.6% rate in the first three months of the year as companies rushed to get ahead of Trump's tariffs by ramping up imports.

The second quarter growth, in turn, also reflected a drop in imported goods after that surge earlier in the year.

The government's new datacenter estimates show companies spent $40.4 billion at a seasonally adjusted annual rate on these structures in the second quarter, up more than fourfold from $9.5 billion at the start of 2020. These numbers aren't big enough to factor much into overall GDP growth, given the size of the U.S. economy, but show just how much companies are pumping into the power-hungry data centers that are fueling the AI boom.