

# WSJ Print Edition

*The tech investment boom helps to offset damage from tariffs.*

## AI Saves the Trump Economy

### REVIEW & OUTLOOK

The progress of artificial intelligence has been astonishing, and now we know it's helping the overall U.S. economy much faster than most thought. That's the main story from Thursday's first quarter GDP report, with AI-related investment driving most of the 2% growth. Meantime, the personal consumption expenditures (PCE) price index rose at an annual rate of 4.5%. You don't need ChatGPT to tell you that President Trump's tariffs are hitting consumers. Note

Trump officials have insisted that last summer's tax bill would supercharge growth this year. You wouldn't know it from the GDP report. Consumer spending eased somewhat from last year and accounted for about half of the 2% growth. Consumer spending picked up more in March, but mainly because of higher prices at the gasoline pump.

The best news from the report is the 10.4% growth in business investment. Equipment purchases accounted for 0.88 points of the first quarter growth, nearly all of which came from information processing. Intellectual property contributed another 0.7 points, mostly from software. Big Tech and the AI boom can take a deep bow.

Google, Amazon, Microsoft and Meta this week reported a stunning \$130 billion in capital expenditures during the first quarter as they built out AI data centers. That's a 71% increase from last year. AI is spurring business spending on computer chips and servers, as well as downstream for electric power generating and cooling equipment.

No one knows when this music will stop, and which firms will emerge on top. But this much investment is bound to lift economic productivity sooner or later, which will mean wage increases for workers.

The AI investment boom and Mr. Trump's tax cuts—especially the business expensing provisions—are helping to offset the damage from his tariffs. But tariffs are a tax, and taxes hurt growth. Mr. Trump's willy-nilly imposition of border taxes has also fueled uncertainty, which makes it difficult for businesses to plan investments. Tariff costs will vary by the particular business and individual, but most Americans are getting stung whether they know it or not. Our friends Michael Solon and Phil Gramm wrote in these pages this week that the \$195 billion in new tariffs that were collected last year swamp the \$188 billion that taxpayers will receive in lower federal tax liability for 2025 thanks to last summer's tax cuts.

The 4.5% increase at an annual rate in the PCE index—the Federal Reserve's preferred inflation measure—was also the most since the 2022 third quarter and up from 2.9% in last year's fourth quarter. Don't blame the war in Iran. The PCE excluding energy and food came in at an annual 4.3%. Note

Tariffs don't cause general inflation, but they do lead to one-time price increases in the specific goods that are tariffed. To the extent tariffs reduce competition for domestic producers, they can also lead to more price increases down the road. Prices for most categories of goods increased last quarter, including for recreational goods and vehicles (20.4% annual rate), household furnishings (5.9%), and clothing and footwear (6.8%). These are subject to tariffs.

The inflation problem that Mr. Trump's nominee for Federal Reserve Chairman, Kevin Warsh, will inherit is much broader, as evidenced by accelerating service prices, up 4.1% in the first quarter. Mr. Trump could help himself and the economy by dropping his border taxes, not that we expect he will. If voters sore about prices rebel against Republicans at the ballot box in November, the Trump tariffs will be a major reason.

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