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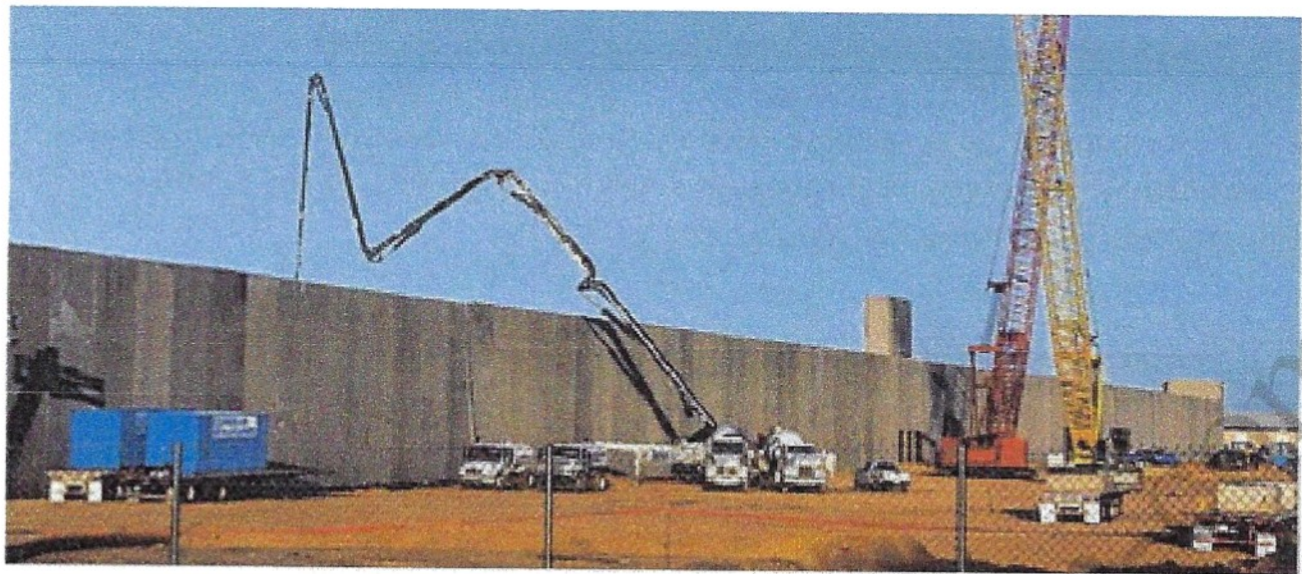

A large data center campus under construction in the Phoenix metropolitan area. EDUARDO BARRAZA/ ZUMA PRESS

U.S. Economic Growth Slows

GDP expands 1.5%, below expectations, even as consumer spending increases

BY HARRIET TORRY

U.S. economic growth slowed in the second quarter, weighed down by strong imports to fuel the artificial-intelligence boom.

Note

The AI surge has become such a huge part of the economy that it's a big growth driver and also affects trade in a way that can offset some of that growth. Specifically, high demand for imported components like semiconductors weighs against the U.S. growth calculation because the products aren't made in the U.S.

At the same time, Thursday's gross domestic product report included positive signs on other fronts. Consumers increased their spending, shrugging off a surge in gas prices fueled by the conflict with Iran. Business investment remained strong as companies kept investing in IT equipment and software for the AI build-out.

The Commerce Department said GDP—the value of all goods and services produced across the economy, adjusted for inflation and seasonal changes—rose at a 1.5% annual rate in the second quarter.

Economists surveyed by The Wall Street Journal had expected GDP growth of 1.8% for the April to June period. The economy grew at a 2.1% pace in the first quarter.

Economists said the headline number clouded the largely positive trends. Solid spending by companies and consumers points to continued economic strength in the second half of the year, analysts said.

Note

"What I saw was robust consumer spending and a sustained increase in capital expenditure driven by the AI build-out," said Joseph Brusuelas, chief economist at RSM.

Ernie Tedeschi, chief economist at payments company Stripe, calculated that gross computer spending—which includes capital expenditures on computers and data center construction—made a major contribution to the second quarter's 1.5% growth rate.

"More than half of real GDP growth in the second quarter alone was attributable to computers or data centers or something adjacent to information- processing equipment and software," Tedeschi said.

Note

Consumer spending, the economy's main engine, rose at a 3.2% pace in the second quarter, picking up from 0.5% in the first quarter of this year. Consumers—buoyed by tax cuts—increased their spending on both goods and services. This was despite regular gasoline averaging $4.22 a gallon from April through June, according to AAA data.

A measure of underlying demand that carves out more volatile government, inventory and international trade numbers also strengthened. Called final sales to private domestic purchasers, this measure rose at a 3.9% rate in the second quarter, up from 1.7% in the prior quarter and the fastest pace since the first quarter of 2023.

GDP reflects the total of all spending. But since some of that spending is on imported products, rather than things made in the U.S., imports are considered a drag on GDP.

That math played a role in the second quarter, when net exports—a measure of what the U.S. exports minus what it imports—subtracted a percentage point from the headline GDP number. Inventory investment also weighed on growth last quarter as businesses slowed stockpiling.

Part of this stems from AI growth, which has boosted demand for foreign-made equipment. U.S. stocks rallied Thursday as a robust earnings report from Microsoft restored momentum in the AI boom. The Dow Jones Industrial Average rose 613.92 points, or 1.19%, to 52208.06. Nasdaq surged 2.78% and the S&P 500 gained 1.66%.

Speaking to the Senate Finance Committee last week, U.S. Trade Representative Jamieson Greer welcomed higher imports of "the type of goods that help us produce even more here."

"We have shifted the bulk of our imports from consumer goods and autos to the things we need to scale reindustrialization, like machine tools, injection molding equipment and AI chips," he said.

The GDP report came a day after Fed officials voted Wednesday to hold the central bank's benchmark interest rate steady, in a range of 3.5% to 3.75%. The decision came in a 9-3 vote as three bank presidents dissented in favor of a quarter-point rate increase, a sign of heightened tension over inflation.

Fed Chairman Kevin Warsh characterized the economy and labor market in broadly positive terms, noting strength in productivity and investment in artificial intelligence. "The economy is showing impressive resilience," Warsh said during his postmeeting press conference.

Job gains were steady in the second quarter, and the unemployment rate remained low. Beyond the impact of gas prices, Americans got a break on inflation in June: The price index for personal-consumption expenditures declined by 0.1% on lower energy prices, according to separate data from the Commerce Department Thursday.