Strong headline growth in the US masks cooler domestic demand

A major improvement in the US's trade position was the main driver of 2Q GDP growth, with the impact of tariffs continuing to cause big swings in US data. Nonetheless, consumers are nervous about the outlook, construction is struggling and business investment has lost momentum. We continue to expect 1.6% GDP growth in 2025 versus the 2.8% recorded in 2024

Net trade boosted second-quarter GDP growth as tariffs continue to cause wild swings in the data

3% 2Q US GDP growth

Better than expected

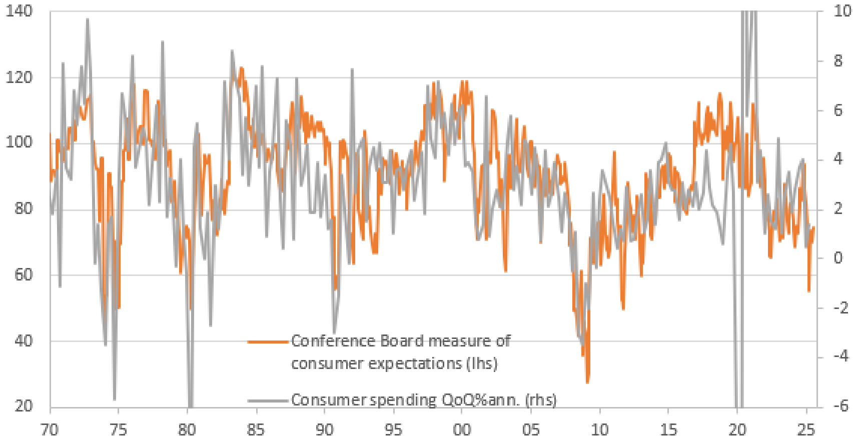
Trade reversal boosts 2Q GDP

Second-quarter GDP growth in the US has come in at 3% annualised, above the 2.5% consensus, but a little below our 3.3% forecast. The details show that net trade was the main driver of growth as imports snapped back lower following their first-quarter surge when companies sought to beat the introduction of tariffs. This meant that net trade contributed 5pp to the headline growth rate, but a run-down in inventories, as companies put their first-quarter imports to work, subtracted 3.2pp.

Elsewhere, government consumption contributed negligibly as cuts to federal spending were offset by increases in local and state government expenditure. Meanwhile, consumer spending rose 1.4%QoQ annualised and non-residential fixed investment rose by 1.9% just as residential investment fell by 4.6%.

The consumer story is critical to the outlook, given it accounts for around 70% of economic activity as measured by GDP. Anxiety over the price impact of tariffs on household spending power, worries about the outlook for jobs and uncertainty caused by big swings in asset prices and household wealth have all contributed to a gradual slowing in consumption.

US consumer spending growth and consumer sentiment (1970-2025)



Source: Macrobond, ING

Domestic demand is subdued

Yesterday's Conference Board measure suggests little prospect of an imminent revival, being consistent with 1.5% spending growth in the third quarter. Residential investment will continue to be a drag, given the weakness in home builder sentiment and the fact that prices have fallen for three consecutive months. Business investment may improve a touch due to clarity on trade relationships, but momentum has undoubtedly been lost. As such, we continue to look for the US economy to grow around 1.5% both this year and next, similar to the consensus forecast.

Risk of dissent, but no Fed rate cut today

The trade swings are going to keep distorting the headline growth rate through much of this year due to the evolving nature of trade policy. Outside of this, the data remains consistent with a cooling growth story, but there appears to be little pressing need for an interest rate cut despite the President's demands.

Fed Governors Chris Waller and Michelle Bowman may well vote for a 25bp Federal Reserve rate cut today, but with the economy still adding jobs and there being a large degree of uncertainty over the inflationary impact from tariffs, the rest of the committee will oppose and remain in data-watching mode.

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