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Tariffs Cloud U.S. Economic Outlook as Investment Surges and Growth Slows

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WASHINGTON – A fresh wave of economic indicators released Thursday has revealed a U.S. economy grappling with deepening contradictions. While business investment continues to accelerate, overall growth has slowed markedly, and more Americans are struggling to secure employment, a dynamic highlighting the disruptive impact of President Donald Trump's sweeping tariff policies.

According to the Commerce Department, gross domestic product contracted at an annualized rate of -0.5% in the first quarter of the year, a sharper decline than the 0.2% drop previously estimated. The primary driver of the downturn was a significant widening of the trade deficit, as businesses rushed to import goods before tariffs took effect, resulting in imports far exceeding exports. Even after downward revisions to import volumes, the deficit remained the largest drag on economic output.

Consumer spending, long a pillar of growth, was also revised lower, suggesting households are exercising more caution amid rising prices and uncertainty.

In contrast, corporate investment showed surprising resilience. Durable goods orders surged 16.4% last month, buoyed by a sharp increase in demand for transportation equipment. Additionally, new orders for non-defense capital goods excluding aircraft, a key indicator of business investment, rose 1.7% in May, rebounding from a decline in April. Economists view this as a potential catalyst for stronger growth in the second quarter.

“This is a remarkable demonstration of business confidence in the face of considerable policy headwinds,” said Ryan Sweet, chief U.S. economist at Oxford Economics.

The labor market, however, is showing early signs of strain. The Labor Department reported that continuing claims for unemployment benefits increased by 37,000 to nearly 2 million, the highest level since November 2021. While this may point to a cooling job market, Federal Reserve officials emphasized that hiring remains steady overall.

“It is simply taking a bit longer for people to find jobs, but there are no clear indications the labor market is weakening,” said San Francisco Federal Reserve President Mary Daly.

Amid these mixed signals, trade relations took a positive turn. China announced it would reduce tariffs on U.S. exports from 125% to 10%, while the U.S. cut tariffs on Chinese imports from 145% to 30%, easing pressure on manufacturers and exporters.

The Federal Reserve remains divided over whether to lower interest rates later this year. With growth slowing but business investment robust, policymakers will closely monitor upcoming data to assess whether the economy is merely decelerating or facing deeper challenges ahead.