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## U.S. Economic Growth Rebounds in Second Quarter, But Underlying Weakness Persists

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U.S. economic growth showed signs of improvement in the second quarter of 2025, rebounding from the previous quarter’s contraction, according to preliminary data from the Commerce Department. However, beneath the headline gross domestic product (GDP) figure, underlying indicators point to a more restrained economic performance, weighed down by sluggish business investment and cautious consumer spending.

The advance GDP estimate suggests that the economy grew at an annualized rate of 2.4% in the April–June period, up from a 0.5% decline in the first quarter. This improvement is largely attributed to a narrowing trade deficit, as the volume of imports slowed. But economists warn that trade dynamics are distorting the broader picture. Final sales to private domestic purchasers, an indicator many economists view as a clearer measure of economic momentum, may likely decelerate, highlighting the economy’s limited internal strength.

President Donald Trump’s ongoing trade policies, including tariffs and delays in duty increases, have introduced uncertainty in the corporate sector. “For the second quarter in a row, the headline GDP figures are not going to offer an accurate view of the underlying picture,” noted Stephen Stanley, Chief U.S. Economist at Santander U.S. Capital Markets. He said businesses are exercising caution in response to the unpredictability of the administration’s trade strategy.

The Reuters survey of economists was completed before a separate government report showing the goods trade deficit in June had fallen to its smallest in nearly two years. This, along with a modest rise in inventories, led some analysts to revise second-quarter GDP estimates as high as 3.3%. Still, trade and inventories remain among the most volatile GDP components. In the first quarter, trade subtracted a record 4.61 percentage points from GDP, while inventories added 2.59 points. A reversal of those trends helped lift second-quarter numbers, but not without caveats.

For the first half of the year, the economy is estimated to have expanded less than 1.5%, well below the 2.8% pace recorded in 2024. Economists anticipate a sluggish second half, with annual growth potentially falling short of even 1.5%. While the administration has advanced several trade agreements, analysts point out that roughly 60% of U.S. imports remain outside any new deal. The average effective tariff rate also remains elevated, among the highest since the 1930s.

“The economy is not going to be able to close the gap relative to what we saw last year when it comes to GDP growth,” said Ryan Sweet, Chief Economist at Oxford Economics. He noted that rising prices driven by tariffs are starting to erode real disposable income, limiting consumer spending.

The Federal Reserve, which meets this week, is expected to maintain interest rates within the current target range of 4.25% to 4.50%. Despite political pressure to lower rates, the

Fed is holding steady, with the next potential rate cut likely delayed until December. “The key is the job market,” Sweet added. “As long as layoffs don’t rise significantly, the economy will be able to continue to muddle through.”

Consumer spending, accounting for over two-thirds of U.S. economic activity, was expected to show a modest recovery following a near stall in the first quarter. In contrast, business investment in equipment appeared weak, and may have even declined, according to estimates. Government spending likely rebounded slightly but remains constrained due to ongoing budget reductions in some sectors.

Final sales to private domestic purchasers, which exclude trade, inventories, and government spending, are projected to have cooled from a 1.9% pace in the first quarter, reinforcing the idea that the apparent strength of GDP is masking deeper issues.

While Congress passed the One Big Beautiful Bill, eliminating near-term fiscal uncertainty, its long-term impact remains debatable. The nonpartisan Congressional Budget Office (CBO) estimates the bill’s tax cuts and spending increases will add \$3.4 trillion to the national debt, now at \$36.2 trillion, while boosting inflation-adjusted GDP by an average of only 0.5% over the next decade.

Concerns also persist about the administration’s immigration policies. Economists warn that reduced immigration could hamper workforce growth and productivity. “Hopefully, productivity goes up because of AI and other kinds of things,” said Sung Won Sohn, Professor of Economics at Loyola Marymount University. “But labor force growth is slowing, in part, due to the disruption in immigration.”

With fewer workers entering the labor market, the U.S. economy may struggle to sustain meaningful growth in the long term, placing added importance on innovation and productivity gains in the years ahead.