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US Q2 GDP: Consumers back in the driver's seat

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Annualized Qtrly Chg.	**26 Q2**	26 Q1	25 Q4	25 Q3	25 Q2	25 Q1
Real GDP	1.5%	2.1%	0.5%	4.4%	3.8%	-0.6%
Personal consumption	3.2%	0.5%	1.9%	3.5%	2.5%	0.6%
• Goods	5.2%	0.5%	0.3%	3.0%	2.2%	0.2%
• Durable goods	6.8%	0.5%	0.1%	1.5%	2.3%	-3.4%
• Nondurable goods	4.4%	0.6%	0.4%	3.9%	2.2%	2.2%
• Services	2.2%	0.5%	2.7%	3.6%	2.6%	0.8%
Gross private investment	3.0%	7.9%	2.3%	0.0%	-13.7%	23.3%
• Fixed investment	7.0%	6.5%	1.5%	0.8%	4.4%	7.1%
• Nonresidential	8.4%	10.6%	2.4%	3.2%	7.3%	9.5%
• Structures	-5.0%	-4.7%	-6.6%	-5.0%	-7.5%	-3.1%
• Equipment	15.2%	15.8%	4.3%	5.2%	8.5%	21.3%
• Intellectual Property	8.8%	13.8%	5.4%	5.6%	15.0%	6.5%
• Residential	1.5%	-7.8%	-1.7%	-7.1%	-5.1%	-1.0%
Exports	4.5%	10.9%	-3.2%	9.6%	-1.8%	0.2%
• Goods	8.9%	18.8%	-1.7%	8.6%	-4.7%	6.3%
• Services	-3.3%	-1.9%	-5.7%	11.5%	3.5%	-9.7%
Imports	11.5%	11.8%	-1.0%	-4.4%	-29.3%	38.0%
• Goods	14.7%	16.6%	-2.4%	-7.1%	-35.0%	52.0%
• Services	0.1%	-4.1%	4.2%	6.4%	-1.2%	-5.8%
Government	-0.8%	4.4%	-5.6%	2.2%	-0.1%	-1.0%
• Federal	-4.1%	9.4%	-16.7%	2.7%	-5.3%	-5.6%
• National defense	2.4%	2.2%	-10.8%	5.7%	0.9%	-6.9%
• Nondefense	-12.9%	20.7%	-24.3%	-1.4%	-13.0%	-3.8%
• State and local	1.1%	1.6%	1.5%	2.0%	3.1%	1.9%

Source: Haver Analytics.

- Growth in the US economy eased a little more than expected in Q2, but a pick-up in final domestic demand suggests that the underlying trend remains solid. Consumer spending moved back into the driver's seat, even as higher gasoline prices negatively impacted disposable incomes. However, a decline in the savings rate to its lowest since 2022 suggests that such torrid spending is unlikely to be sustainable, particularly with gasoline prices having risen again in recent weeks and renewing its squeeze on incomes. While GDP and consumer spending growth is expected to continue in the second half of the year and into 2027, it is likely to be at a more moderate pace than seen on average in recent years.

- GDP increased at an annualized 1.5% pace in Q2, down modestly from 2.1% in the prior quarter and a little below the consensus forecast (+2.0%). However, growth was held back by a sharp rise in imports, linked at least partly to still-strong AI investment, as well as a drag from inventories. Net trade subtracted 1.0%-pts from headline GDP, with inventories lopping off a further 0.7%-pts.
- Final domestic demand actually accelerated to 3.1%, from 2.2% in the prior quarter. As well as a further sharp rise in business investment, consumer spending was also strong as higher tax refunds and a draw down in the savings rate helped offset the impact of higher gasoline prices on households' spending. The 3.2% annualized increase in consumer spending was much stronger than the 0.5% gain in the prior quarter and also above the consensus expectation (+2.3%). However, real disposable incomes were actually down on the quarter (-1.5%), which meant that the strength in consumer spending was supported by a lower level of savings. Monthly PCE data released alongside GDP showed that the savings rate had dropped to 2.7% as of June, compared to 3.5% in March and a 4.6% average in 2025.
- At the moment, that low savings rate isn’t deterring spending, with monthly PCE data released alongside GDP showing that consumer spending increased by a further 0.4% m/m in inflation-adjusted terms in June, matching the upwardly revised increase of the prior month. However, it does appear likely that consumer spending growth will ease to a more sustainable pace later in the year, particularly as the wealth effect from equities may be plateauing.
- Price pressures were strong during Q2, as would be expected given the sharp rise in global oil prices seen during the quarter. The GDP price index rose at a 6.2% annualized pace, with core PCE at 3.4%. Some good news for the Fed though is that core price pressures looked more muted as the quarter progressed. The monthly core PCE price data for June pointed to a 0.1% m/m increase for a 3.3% annual pace. That's far from tame enough to sound the all clear on inflation, particularly following the strength seen earlier in the year and with a renewed rise in oil prices threatening further spillover into other areas. However, it does help support the wait and see approach from the Fed yesterday.

Implications & actions

Re: Economic forecast — Underlying growth within the US economy still appears solid, with AI-linked business investment and consumer spending continuing to be the main drivers. For the Fed, price pressures, rather than growth or employment trends, should remain the key concern. Our current forecast for the Fed to remain on hold over the balance of the year rests on an end to disruptions in Middle East oil traffic as well as a continuation of tamer core inflation readings compared to those seen earlier in the year - something that is far from guaranteed at the moment.

Re: Markets — Bond yields fell slightly following the data release, presumably focusing largely on the slightly weaker than expected core PCE price index print for June.