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# Special Update

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# Expectations for Q2 U.S. GDP Growth: Analysis and Atlanta Fed GDP Now Forecast

## Introduction

The U.S. economy in the second quarter (Q2) of 2025 is a focal point for economists, policymakers, and investors, particularly after a contraction in Q1 2025, with real GDP growth revised to -0.5% according to the U.S. Bureau of Economic Analysis (BEA). Expectations for Q2 GDP growth are shaped by various economic indicators, including consumer spending, trade balances, and investment trends, as well as nowcasting models like the Atlanta Federal Reserve's GDPNow. This report provides a detailed analysis of Q2 2025 GDP expectations, with a specific focus on the Atlanta Fed's GDPNow forecast, supplemented by other economic projections and recent data. Citations are provided in APA format, with a reference page included at the end.

## Overview of Q2 2025 GDP Expectations

Economic projections for Q2 2025 indicate a rebound from the negative growth observed in Q1. The Atlanta Fed's GDPNow model, a widely regarded nowcasting tool, estimated real GDP growth (seasonally adjusted annual rate) for Q2 2025 at 3.4% as of June 18, 2025, slightly down from 3.5% on June 17. Other sources, including posts on X, suggest expectations ranging from 2.8% to as high as 4.6%, reflecting optimism driven by improving consumer spending and a rebound in net exports following tariff-related distortions in Q1. The Blue Chip Economic Indicators survey and the Wall Street Journal Economic Forecasting Survey also project positive growth, though more subdued, with consensus estimates around 2% to 3%.


The Q1 contraction was influenced by a spike in gold imports and front-loaded imports ahead of anticipated tariffs, which negatively impacted net exports. In Q2, a reduction in import activity and stronger domestic demand are expected to contribute to positive growth. However, uncertainties surrounding trade policies, inflation, and consumer confidence continue to shape the economic outlook.

## Atlanta Fed GDPNow Forecast

The Atlanta Fed's GDPNow model is a dynamic nowcasting tool that provides real-time estimates of GDP growth based on incoming economic data. Unlike traditional forecasts, GDPNow relies solely on mathematical results without subjective adjustments, aiming to replicate the BEA's methodology for estimating GDP subcomponents. The model aggregates forecasts of 13 GDP subcomponents using the BEA's chain-weighting approach, updating frequently as new data from sources like the U.S. Census Bureau, Bureau of Labor Statistics, and Federal Reserve Board become available.

### Recent GDPNow Estimates for Q2 2025

- June 18, 2025: The GDPNow model estimated Q2 real GDP growth at 3.4%, down from 3.5% on June 17, reflecting slight declines in nowcasts for personal consumption expenditures (from 2.5% to 1.9%) and government expenditures (from 2.3% to 2.1%), partially offset by an increase in gross private domestic investment (from -1.9% to -1.4%).
- June 9, 2025: The estimate stood at 3.8%, unchanged from June 5, indicating stability in early Q2 projections.
- May 15, 2025: The model projected 2.5% growth, up from 2.3% on May 8, driven by increases in personal consumption expenditures (from 3.3% to 3.7%) and gross private domestic investment (from 1.2% to 1.5%).
- May 6, 2025: The estimate was 2.2%, up from 1.1% on May 1, reflecting early optimism as data accumulated.


## Key Drivers of the GDPNow Forecast

The GDPNow model's projections are influenced by several key factors:

- Personal Consumption Expenditures (PCE): Consumer spending, which accounts for approximately 69% of U.S. GDP, is a significant driver. Recent updates show PCE growth estimates declining from 2.5% to 1.9% between June 9 and June 18, reflecting cautious consumer behavior amid inflation concerns.
- Net Exports: Q1 GDP was heavily impacted by a record-high trade deficit, driven by gold imports and tariff-related inventory buildups. In Q2, a drop in imports is expected to reduce the trade deficit, boosting GDP growth.
- Gross Private Domestic Investment: Investment growth improved from -1.9% to -1.4% in mid-June, indicating a potential rebound in business activity.
- Government Expenditures: A slight decline from 2.3% to 2.1% suggests stable but not robust government spending contributions.

## Accuracy and Limitations

The GDPNow model is noted for its historical reliability, particularly later in the quarter, but it can be volatile early on due to incomplete data. For Q1 2025, the model's final estimate was -2.7%, while the BEA's second estimate reported -0.5%, indicating some discrepancy, partly due to gold import distortions. The "gold-adjusted" model, which accounts for nonmonetary gold imports, was closer at -1.5%. This highlights the model's sensitivity to specific data inputs, such as trade, and the importance of interpreting early estimates cautiously.


## Broader Economic Context

### Q1 2025 Recap

The U.S. economy contracted by 0.5% in Q1 2025, driven by a surge in imports (particularly gold) and weaker consumer spending amid inclement weather and tariff uncertainties. The GDPNow model initially projected positive growth of 2% to 4% but plummeted to -2.8% by March 3 due to a record $153 billion trade deficit and declining personal spending. Revised BEA estimates later adjusted Q1 growth to -0.5%, with some sources reporting a final figure of 0.2%. This volatility underscores the challenges of real-time forecasting and the impact of one-off factors like gold imports.

### Q2 2025 Economic Indicators

Several indicators shape Q2 GDP expectations:

- Consumer Spending: After a 0.2% decline in January (adjusted for inflation, -0.5%), consumer spending is rebounding, with GDPNow estimating 1.9% growth in PCE. However, consumer confidence remains low, with the Conference Board's Consumer Confidence Index falling for four consecutive months, signaling pessimism about future business and employment prospects.
- Trade Balance: The trade deficit, a significant drag in Q1, is expected to narrow in Q2 as import activity normalizes post-tariff adjustments. This is a key factor in the optimistic GDPNow projections.
- Inflation and Monetary Policy: The core PCE price index, a key inflation measure, fell to 2.6% in January, suggesting easing inflationary pressures. The Federal Reserve is expected to maintain current rates, with markets anticipating possible rate cuts by June if growth slows.
- Labor Market: Initial unemployment claims rose to levels not seen since October 2024, indicating potential labor market softening, which could temper Q2 growth.


## Other Forecasts

- Blue Chip Consensus: The Blue Chip Economic Indicators survey projects Q2 growth around 2% to 3%, lower than the Atlanta Fed's estimate but still positive.
- Wall Street Journal Survey: Respondents estimate a 45% recession probability over the next 12 months, higher than the 2014–2019 average of 17%, suggesting cautious optimism for Q2.
- New York and Dallas Fed Models: The New York Fed's Nowcast model projected 2.9% growth for Q1, while the Dallas Fed's Weekly Economic Index estimated 2.4%, indicating less pessimism than the Atlanta Fed's Q1 projections.

## Implicatons and Outlook

The projected rebound in Q2 2025 GDP growth reflects a recovery from Q1's trade-driven contraction. The Atlanta Fed's GDPNow estimate of 3.4% suggests robust growth, supported by improving consumer spending and a narrowing trade deficit. However, risks remain, including persistent consumer confidence issues, potential trade policy disruptions, and labor market uncertainties. The Federal Reserve's cautious stance on rate cuts, combined with geopolitical and policy uncertainties, could influence future growth trajectories.

Investors and policymakers should monitor upcoming data releases, particularly from the BEA on July 30, 2025, for the official Q2 GDP estimate. The GDPNow model's frequent updates provide a valuable real-time perspective, but its volatility early in the quarter warrants cautious interpretation. If the 3.4% to 4.6% growth projections hold, 2025 could see annualized growth of approximately 1.8%, a decline from 2024 but above recessionary levels.


## Conclusion

Expectations for Q2 2025 U.S. GDP growth are broadly positive, with the Atlanta Fed's GDPNow model forecasting 3.4% growth as of June 18, 2025, driven by consumer spending and improving trade balances. While Q1's contraction raised recession concerns, Q2 projections suggest a recovery, though uncertainties around consumer confidence and trade policies persist. The GDPNow model, despite its volatility, remains a critical tool for real-time economic analysis, complemented by broader consensus forecasts. Continued monitoring of economic indicators and policy developments will be essential for understanding the U.S. economy's trajectory in 2025.


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