



## Large Upward Revisions to Consumer Spending and GDP in Q2 as Expansion Continues

### Headlines

- **Real GDP growth was revised higher in the third estimate to 3.8%, from 3.3%. There was a large upward revision to consumer spending.**
- **Growth in gross domestic income was revised lower.**
- **Tariffs have caused large swings in GDP in the first half of 2025, but underlying demand is still increasing.**
- **PNC's forecast is for slower economic growth in the second half of the year. Growth should pick up next year with lower interest rates.**

There was a large upward revision to inflation-adjusted (real) GDP growth in the second quarter, to 3.8% at an annualized rate in the third estimate, from 3.3% in the second estimate, according to the Bureau of Economic Analysis. The BEA reported second quarter growth of 3.0% in the first estimate. Real GDP fell 0.6% annualized in the first quarter. For the first half of 2025 real GDP increased 1.6% at an annualized rate.

The upward revision to overall GDP came from a large upward revision to real consumer spending growth. In the third estimate real consumer spending rose a large 2.5% annualized, revised higher from 1.6% growth in the second estimate. There was a partially offset by a downward revision to exports.

Growth in real gross domestic income—an alternative measure of the size of the economy, measuring income going to households and businesses from economic activity—was revised lower in the third estimate to a still-strong 3.8% annualized, from 4.8% in the second estimate.

On a year-ago basis real GDP was up 2.1% in the second quarter, with real gross domestic income up 2.6%.

There have been large swings in GDP in recent quarters. GDP fell in the first quarter as firms rushed to import more ahead of higher tariffs; higher imports reduce GDP. This was the first decline in GDP since the first quarter of 2022. Growth then bounced back in the second quarter as firms imported less as tariffs increased. But the overall story is of gradual growth in demand, particularly in the private sector. Real final sales to private domestic purchasers—consumer spending and business and housing investment—rose 2.4% annualized in the first half of 2025.



Consumers are increasing their spending as their incomes rise, and business investment is also rising. Government has been a drag due to federal spending cuts.

PNC's forecast is for slower growth in the second half of the year, of around 1% annualized, but no recession. Consumer spending growth will slow as the labor market softens and high prices from tariffs weigh on household purchases, but household purchases are not expected to contract. Business investment growth will remain solid. Government will be a drag as the federal government continues to cut spending, and housing will be roughly neutral for growth given continued high mortgage rates. Growth should pick up next year as cuts in the federal funds rate support stronger demand.

Please reach out with any questions,

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