QNB Economics
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Is a re-acceleration of the US economy possible?

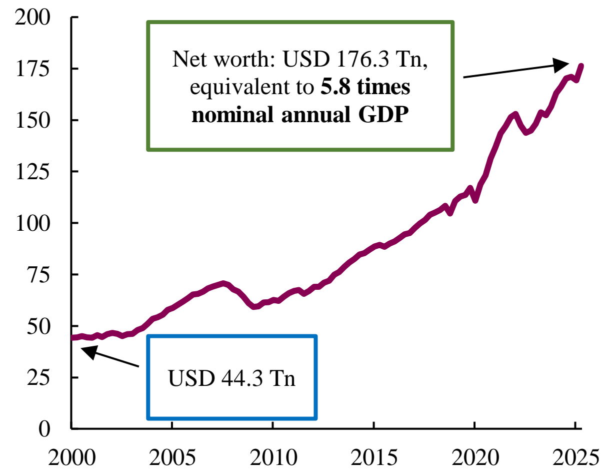
At the beginning of the year, the outlook on the US economy pointed to a gentle slowdown in growth. But an agenda of disruptive policy change by the new administration began to take place, and the climate of optimism and positive market sentiment started to shift. This escalated after “Liberation Day” in early April, when President Donald Trump announced sweeping tariffs on all imports entering the US. Financial markets reacted sharply to the announcement, with stocks tumbling on fears of broader and deeper trade wars, questioned policy credibility, and the potential negative impact on the economy. At its worst moment, consensus growth expectations for the US reached a low of 1.4% in May. This was a drop of almost a full percentage point from the peak of 2.3% in February, a significant downgrade in a short period of time.

Since peak pessimism in May, economic indicators have stabilized and, more surprisingly, some gauges even point to an acceleration in activity. The “GDP Now” is an informative real-time, model-based “nowcast” produced by the Federal Reserve Bank of Atlanta, which delivers a running estimate of real GDP growth in the current quarter for the US economy. It leverages a large set of high-frequency indicators, from key economic sectors, and is therefore a representative summary of economic conditions. The latest available estimate points to an annualized growth rate of 3.8% in Q3-2025, a significant re-acceleration in activity relative to the 0.6% contraction in Q1-2025.

In our view, the consensus growth forecast of 1.7% for this year is still lagging with respect to the latest information available and is therefore relatively pessimistic. In this article, we discuss the key components of GDP that are contributing to an acceleration of economic activity and support a relatively better outlook.

First, household consumption is providing a strong boost to US real GDP growth, underpinned by the combination of resilient, even if deteriorating, employment, record household net wealth, and adequate access to credit. Consumption represents close to 70% of GDP and is therefore a major driver of economic growth. Retail sales adjusted for inflation, a useful gauge of consumption strength, accelerated to 1.7% year-over-year according to the latest prints, significantly above the average of -0.3% from last year.

Net Worth of US Households
(USD, trillions, Tn)



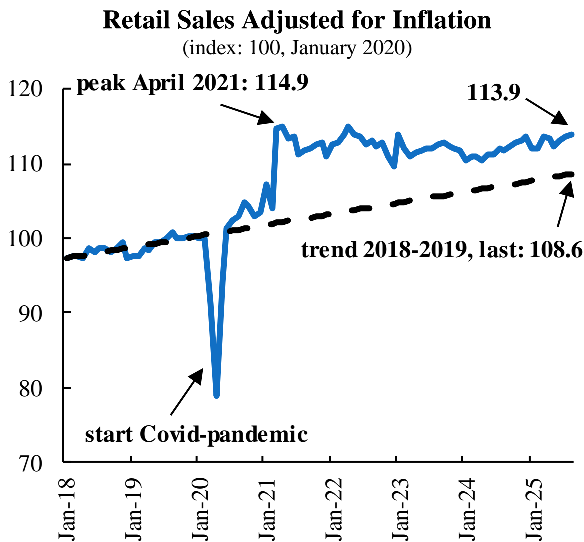
Source: Federal Reserve System, QNB Economics

Even as job gains have slowed, the unemployment rate at 4.3% remains in the range of balanced employment, and earnings have steadily grown in real terms, outpacing inflation. This helps to keep aggregate household incomes strong. At the same time, a positive wealth effect from rising stock markets has bolstered spending capacity. Directly and indirectly held equity represents 35% of household net wealth, and 14% year-to-date growth in major indices have a significant impact on wealth, providing a positive effect that bolsters consumption sentiment. Borrowing channels also remain dynamic, with total household credit growing USD 352 Bn in the first two quarters and continuing to support expenditures this quarter. Together, these factors are contributing to maintain household consumption as the key driver of real GDP momentum, accounting for 2/3 of real GDP growth expected for this quarter.

Second, business investment is showing a strong performance, on the back of favourable financial conditions, fiscal incentives, and technology and AI-related capital expenditures. The latest data releases have shown accelerating growth in “core capital goods orders,” a timely and representative signal of private-sector capital expenditures (“capex”). This measure tracks non-defence capital goods and

excludes aircraft orders, which are typically sensitive to irregular procurements, and are therefore noisier. In recent months, this indicator is growing at a rate of close to 4% in annual terms, a remarkable acceleration from the 0.9% average contraction last year.

Retail Sales Adjusted for Inflation
(index: 100, January 2020)



Source: Census Bureau, Bureau of Labor Statistics, QNB Economics

Several factors are contributing to investment growth. Demand for equipment and technology is surging, as firms continue to invest to support productivity and AI-related expansion. Policy incentives, such as the CHIPS Act, the Inflation Reduction Act, and infrastructure programs are spurring construction of semiconductor facilities, factories, and clean energy projects. Additionally, healthy corporate profits and high expected returns on invested capital give businesses the means and the incentives to move forward with long-term projects. Taken together, these investment trends are contributing to an acceleration of economic growth.

All in all, a reacceleration of the US economy is taking place on the back of strong momentum in consumption and private investment. In our view, the US economy could grow an above consensus 2% this year, on the back of strong consumption and private investment.

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