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GDP GROWTH: TRENDING IN Q2 2025

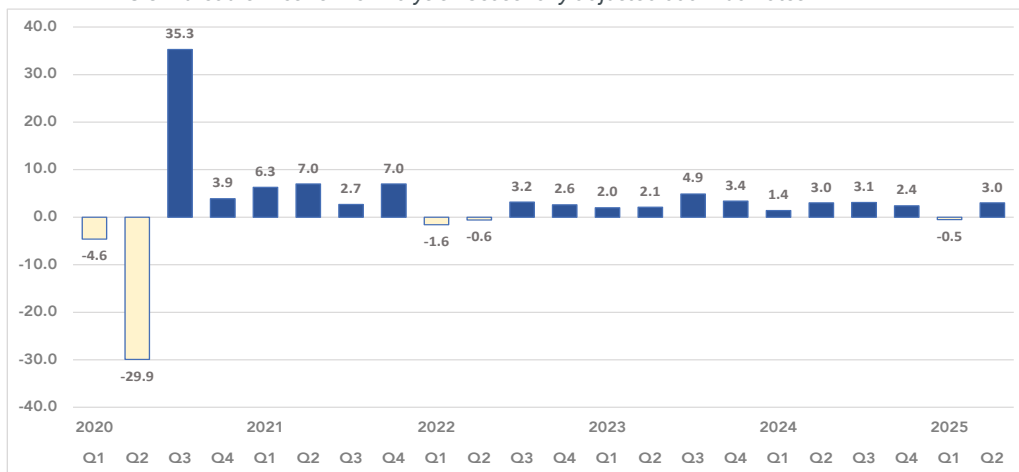
The nation's economy grew at a stronger-than-expected rate in the second quarter due to a drop in imports and healthy consumer spending, but there are weaknesses in business investment and home sales.

The Commerce Department reported that the U.S. gross domestic product rose at a seasonally and inflation-adjusted 3% rate in the second quarter. That was a reversal from the first quarter in which the economy shrank at a 0.5% annual rate as U.S. businesses stocked up on imports ahead of expected tariffs imposed by the Trump administration. Economists surveyed expected second-quarter growth of 2.3%. Despite the return to growth in the second quarter, there was weakness in business investment after Q1's double-digit expansion. Residential investment, which includes homebuilding and home sales, contracted for a second straight quarter.

The Commerce Department's report on prices was welcome news. The price index for gross domestic purchases increased 1.9% in the second quarter – a big drop from the 3.4% increase in the first quarter. The personal consumption expenditures price index, which is watched closely by the Federal Reserve, increased 2.1%, compared with a 3.7% gain in Q1. Excluding food and energy prices, the PCE price index increased 2.5%, compared with a Q1 increase of 3.5%.

Real GDP: Percent Change from Prior Quarter

U.S. Bureau of Economic Analysis - Seasonally adjusted at annual rates



'The growth-hampering effects of all this uncertainty may be taking some time to broadly materialize' - Wells Fargo economists Tim Quinlan and Shannon Grein

Trade swings also played a major role in the first half. Imports fell at a 30.3% rate in Q2 after businesses stepped up purchasing in the first quarter with exports falling at a 1.8% annual rate. Despite recent announcements of broad frameworks for new trade deals with the European Union, Japan and other trading partners, there still are questions about how tariffs could eventually impact growth, employment and prices.

"The growth-hampering effects of all this uncertainty may be taking some time to broadly materialize. We still expect they're coming and for growth to slow more meaningfully in the second half of the year," wrote Wells Fargo economists Tim Quinlan and Shannon Grein in a research note.

The GDP report, excluding the volatile food and energy categories, showed that prices were up at an annualized 2.5% in the second quarter. This was down from the first quarter but remained above the Federal Reserve's inflation target of 2%.

Nevertheless, the government's report showed evidence of economic strain. While consumer spending was up from the first quarter, the pace of spending growth slowed to 1.4% in Q2. Final sales to domestic buyers, which reflect consumer spending and private investment, increased 1.2% in Q2, down from the previous three months.

Business investment in equipment grew at a 4.8% pace, slowing from Q1's robust 23.7% rate. Spending on factories and other structures fell for the second straight quarter. Residential investment contracted at a 4.6% rate, the most since late 2022, fell for the second straight quarter. Averaging the first- and second-quarter GDP measures, the U.S. economy grew at an annual rate of about 1.25% during the first half of the year. That's a slowdown from each of the two previous years, when the economy grew nearly 3%.

EMPLOYMENT: TRENDING IN Q2 2025

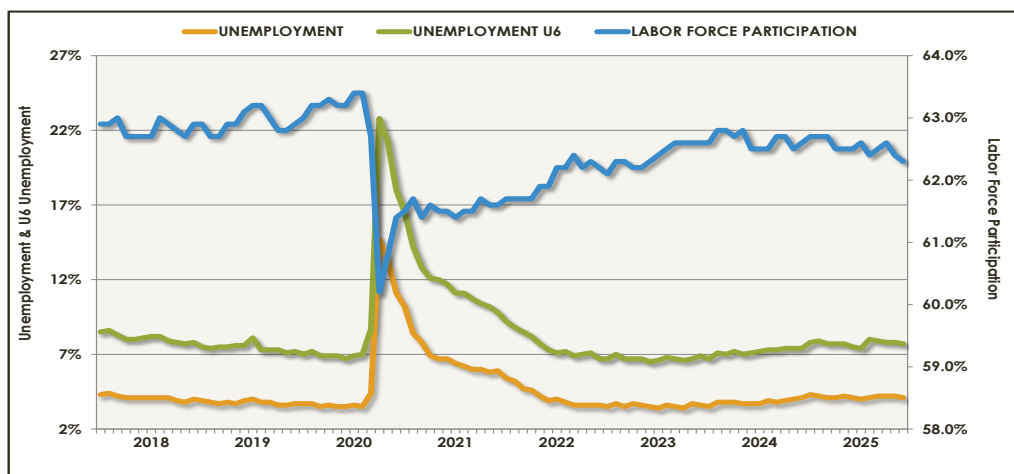
Job gains in the second quarter were better than expected. There were upward revisions for April and May by the Labor Department and 147,000 positions were added in June, more than the 110,000-job estimate and signaling a generally healthy economy.

"The solid June jobs report confirms that the labor market remains resolute and slams the door shut on a July rate cut," since the Federal Reserve is unlikely to reduce interest rates when the economy is growing and jobs are being created, said Jeff Schulze, head of economic and market strategy at ClearBridge Investments.

But there was a reduction in private sector hiring, which totaled 74,000 jobs in June, the fewest business hires since October. The end-of-the-quarter downshift followed 133,000 private-sector jobs added in April and 137,000 added in May. The Wall Street Journal was blunt in its assessment of the recent economic data, writing, "Many private employers aren't hiring anymore."

Although the Bureau of Labor Statistics said June's unemployment rate fell to 4.1%, the lowest since February, the labor force participation rate also dropped to 62.3%, the lowest rate since late 2022. The ranks of those who had not looked for a job in the past four weeks increased by 234,000 to 1.8

United States Unemployment



Federal jobs declined by 7,000 in June and are down 69,000 since February, when the DOGE federal workforce cutting began.

million, a reflection of the federal immigration crackdown. The employment picture changed in June with the report showing that 73,000 jobs – nearly half of June's total – were government positions.

State and local government jobs totaled 73,000 in June, following gains of 25,000 jobs in April and 7,000 in May. State government employment was up 47,000, including 40,000 in education. Employment in local government totaled some 23,000 positions as it continued to trend up. Federal jobs declined by 7,000 in June and are down 69,000 since February, when the DOGE federal workforce cutting began.

The jobs in June added by private employers were concentrated in a handful of sectors. Healthcare was strongest, adding some 39,000 jobs. With 16,000 new jobs in hospitals and 14,000 added in residential care facilities, the total was similar to the average monthly gain of 43,000 in the previous 12 months. There were 20,000 new jobs in leisure and hospitality, 15,000 added construction jobs and 7,500 transportation and warehousing jobs.

Not all sectors and industries gained. Business and professional services contracted by 7,000 positions. Manufacturing lost 7,000 jobs for the second straight month. There were 6,600 cuts in wholesale trade.

Some economists see the reduced business hiring as a red flag and note that numerous companies have plans to trim their workforce in the coming months. Proctor & Gamble in June announced an upcoming cut of 7,000 jobs, or 15% of its workforce. Microsoft said it plans to furlough 9,000 more employees following the 6,000 workers idled from product and software development teams in May.

MONETARY POLICY: TRENDING IN Q2 2025

The Federal Reserve held interest rates steady in the second quarter and signaled that, while still planning on two cuts this year, it was holding off on the next rate reduction until it determined whether the new tariffs affected prices and hiring and fueled inflation.

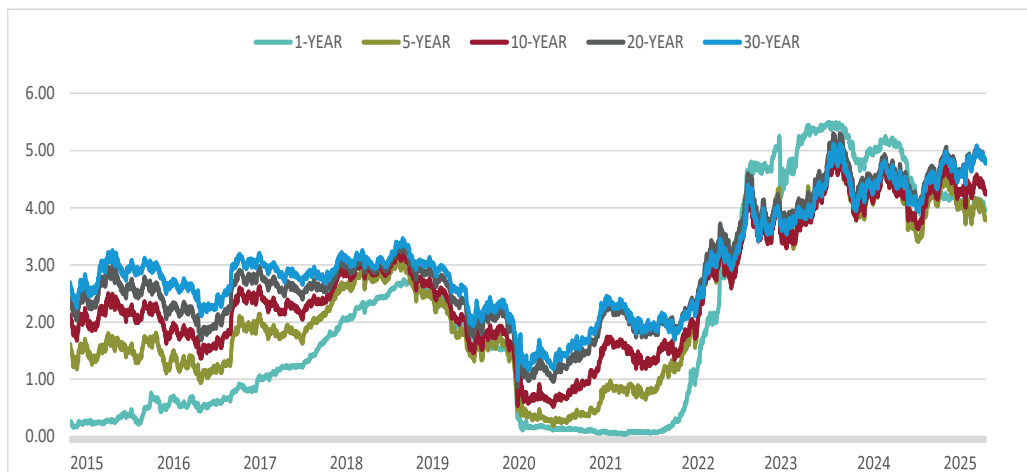
"Unless we see a really, really rapid deterioration in the labor market we won't see a cut until September, and maybe not even then," Fed Chair Jerome Powell told reporters after the Fed's recent quarterly report.

The central bank's Federal Open Market Committee reduced the rate three times last year as inflation eased, but Powell said tariffs would likely reverse the progress against inflation and push it higher in the coming months.

For the Fed's semi-annual report to congress in late June, Powell told house and senate members, "The effects on inflation could be short-lived, reflecting a one-time shift in the price level."

"It is also possible that the inflationary effects could instead be more persistent. Avoiding that outcome will depend on the size of the tariff effects, on how long it takes for them to pass through fully into prices and ultimately on keeping longer-term inflation expectations well anchored," Powell said.

Daily Treasury Yield Curve Rates (Decade Trend)



'Unless we see a really, really rapid deterioration... we won't see a cut until September, and maybe not even then' - Federal Reserve Chair Jerome Powell

Gross domestic product edged down in the first quarter, reflecting swings in net exports that were driven by business bringing in imports ahead of potential tariffs. Although the "unusual swing has complicated" GDP measurement, Powell said, "the economy remains solid."

Consumer spending moderated while investment in equipment and intangibles rebounded from weakness in the fourth quarter, Powell said. He noted recent surveys finding declines in business and consumer sentiment and greater uncertainty about the economic outlook, largely reflecting trade policy concerns. The Fed is monitoring whether these developments affect future spending and investment.

In the labor market, Powell said conditions have remained solid. Payroll job gains averaged a moderate 124,000 per month in the first five months of the year. The unemployment rate remains low and has stayed in a narrow range for the past year. Wage growth has continued to moderate while still outpacing inflation.

Overall, a wide set of indicators suggests that conditions in the labor market are "broadly in balance" and consistent with maximum employment, Powell said.

Inflation has eased significantly from its highs in mid-2022 but remains somewhat elevated as near-term inflation expectations have increased in recent surveys. A broad base of respondents say tariffs are the driving factor, Powell said. Beyond the next year or so, Powell said, most measures of longer-term expectations remain consistent with the Fed's inflation goal.

In support of its inflation goals, the bank's Federal Open Market Committee voted in July to maintain the target range for the federal funds rate at 4.25% to 4.5%. The Federal Reserve also will continue reducing its holdings of Treasuries, agency debt and agency mortgage backed securities. Powell reiterated that the central bank is strongly committed to supporting maximum employment and returning inflation to its 2% objective.

GLOBAL ECONOMY: TRENDING IN Q2 2025

The swift escalation of trade tensions and uncertainty triggered by the United States' new tariff program are expected to suppress global economic activity for the next 18 months.

The International Monetary Fund has reduced its expectations in its April update for global growth to 2.8% this year and 3% in 2026 from the 3.3% previously forecast for this year and next. The World Bank said it expects growth to weaken to 2.3% in 2025 "with deceleration in most economies relative to last year."

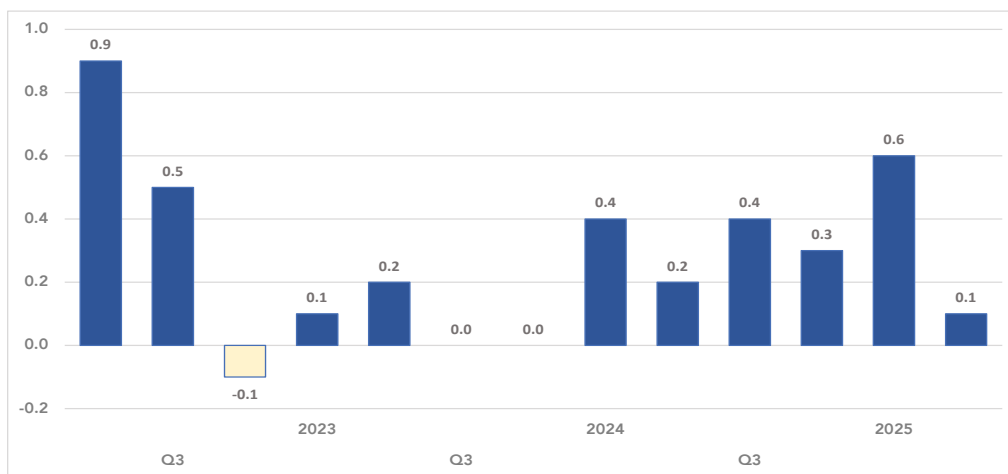
German insurance firm Allianz recently forecast that global growth will slow to 2.5% this year from 2.8% in 2024 with the U.S. seeing sharp deceleration from 2.8% to 1.5%.

Oxford Economics recently told its clients that investment spending in the largest rich economies, also known as the Group of Seven, will decline for the three quarters from April 2025 by an average of 0.4% each.

Morgan Stanley Research forecasts the global economy will expand at an annual rate of 2.9% in 2025 and 2.8% in 2026, down from 3.3% predicted at the end of last year.

"The economic damage is underway, and even fully undoing the tariffs would not restore global growth to where it would have been without them," said Seth Carpenter, Morgan Stanley's chief global economist.

European Union GDP Annual Growth Rate



Governments are reordering policy priorities due to sharp tariff increases by the United States to levels not seen in a century.

Economists expect higher tariffs to directly impede economic growth by weakening demand for goods in the U.S. and exports to that country from the rest of the world. Additionally, uncertainty makes planning and investing more difficult. Businesses put off decisions to invest and hire while they seek clarity on their costs to access U.S. customers.

The United Nations said some measurements of overseas investment hit record lows earlier this year. Financial data firm Mergermarket estimates that the worldwide total of mergers, acquisitions, divestitures, financing and joint ventures in the first half fell to a two-decade low.

After an unprecedented series of shocks in the preceding years, global growth was stable albeit underwhelming through 2024. But the landscape has changed, says the IMF. Governments are reordering policy priorities due to sharp tariff increases by the United States to levels not seen in a century. Countermeasures by U.S. trading partners also have been announced or implemented.

The worldwide reduction in economic expansion is likely to be uneven. The IMF projected 1.4% growth in advanced economies in 2025. Growth in the U.S. is expected to slow to 1.8%, down 90 basis points from the IMF's January report. Growth in the euro zone is forecast at 0.8%, a reduction of 20 basis points this year.

In emerging markets and developing economies, the IMF projects growth to slow to 3.7% in 2025 and 3.9% in 2026 with downgrades for countries hit hardest by recent trade measures, such as China. Global headline inflation is expected to decline at a pace that is slightly less than what was forecast in January, reaching 4.3% in 2025 and 3.6% in 2026.

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