Bearbull Global Investments Group Limited
Al Fattan Currency House – Tower 1 – Unit 702
Dubai International Financial Centre (DIFC) - Dubai - UAE
www.bearbull.ae +971 4 2722719

ECONOMIC RESEARCH – JULY 2025

INVESTMENT INSIGHT USA

- ✓ GDP likely but misleading to rebound in Q2
- ✓ Economy withstands Trump-induced chaos

THE HOUR OF TRUTH DRAWS NEAR

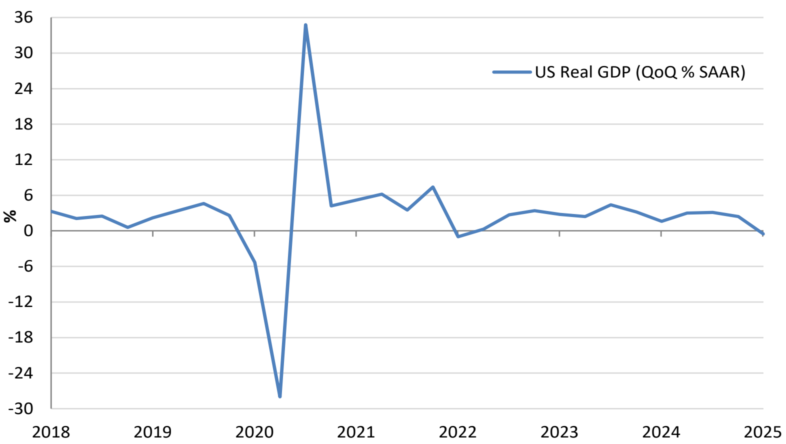
Misleading GDP signals mask underlying weakness

The U.S. economy's Q1 GDP contraction of -0.5% annualized was a misleading indicator of its true underlying health, resulting from short-term statistical factors rather than a broad economic decline. A substantial rebound is anticipated in the second quarter, though this is expected to be a statistical correction, not a genuine strengthening of the economy.

Household consumption revisions signal deeper weakness

Revisions to Q1 data revealed a significant and concerning weakness in household consumption. Initial estimates of a modest +1.8% rise were sharply revised down to a mere +0.5%, the lowest contribution to GDP in the past five years. This is particularly worrying given that consumer spending is historically the main engine of economic momentum. The downward revision undermines earlier assessments of economic resilience and highlights a growing reluctance among consumers to spend, which could persist into the second half of the year as persistent inflation remains a key factor and geopolitical risks mount globally.

Quarterly GDP growth - United States



Sources : Bloomberg, BBGI Group

Distorted GDP data from import and inventory dynamics

The negative Q1 GDP was heavily influenced by temporary distortions related to trade and inventories. In a logical, preemptive move, there was an unprecedented surge in imports and a corresponding, massive build-up of inventories in anticipation of the new administration's protectionist tariff policies. These factors mechanically and exceptionally weighed on the Q1 GDP calculation, creating a negative and ultimately deceptive headline figure. This anticipatory behavior temporarily skewed the official statistics, masking the underlying weakness in domestic demand.

Anticipated Q2 rebound is a statistical anomaly

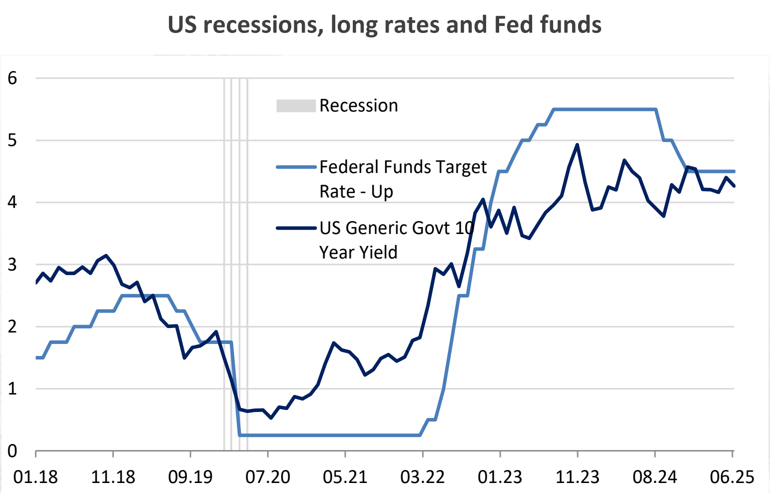
Looking ahead, the upcoming Q2 GDP report, to be published on July 30, is expected to show a significant and seemingly reassuring rebound, likely approaching +2% on an annualized basis. However, this positive headline will be primarily a mechanical byproduct of the Q1 import and inventory backlash. Therefore, this growth will not reflect a genuine revival of economic strength but rather a statistical normalization following the first quarter's disruptions. The true underlying economic trend remains weak.

Economy resists initial tariff shock

The U.S. economy has, to date, appeared resilient in the face of the massive disruption caused by new trade policies. However, this resilience is largely due to the fact that the most significant negative impacts have been delayed rather than entirely avoided. Anticipatory imports and inventory adjustments allowed the economy to temporarily circumvent the direct effects of the initial 10% across-the-board tariff. The economy's ability to absorb this initial chaos has been impressive but will undoubtedly be tested in the coming months.

Future economic headwinds from trade policy

With the 90-day grace period for trade negotiations now expired without major successes, the economic headwinds are only intensifying. Despite some minor agreements, the fundamental threat of broader and higher tariffs remains. The postponement of the full implementation until August 1st merely delays the inevitable shock, which is expected to weaken both consumption and investment as import costs rise and uncertainty mounts. In our view, the full ramifications of these new policies have yet to materialize and pose a significant threat to economic momentum in the second half of the year. The initial calm is likely to be followed by a storm.



Sources : Bloomberg, BBGI Group