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ECONOMIC DATA

U.S. Economy Grew at 2.1% Rate in Second Quarter

Higher consumer spending offset a decline in business investment

A worker at Christopher Ranch monitoring the packaging of garlic in June in Gilroy, Calif. PHOTO: JUSTIN SULLIVAN/GETTY IMAGES

By Harriet Torry and Sarah Chaney

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WASHINGTON—The U.S. economy grew at a healthy clip in the second quarter as higher consumer spending offset a decline in business investment, keeping the decadelong expansion on track despite trade tensions and cooling global activity.

Gross domestic product, a broad measure of goods and services produced across the economy, rose at a 2.1% annual rate in the second quarter, adjusted for seasonality and inflation, the Commerce Department said Friday.

Economists surveyed by The Wall Street Journal expected a reading of 2.0%. The second-quarter pace marked a pullback from 3.1% in the first quarter, which had been partly driven by a jump in inventories and exports and fall in imports—factors which reversed in the April-June period.

Business investment declined in the second quarter for the first time since early 2016, according to the report. Nonresidential fixed investment—which reflects spending on software, research and development, equipment and structures—fell at a 0.6% rate, compared with a 4.4% rise in the first quarter.

Shoppers picked up the slack however. Consumer spending, which accounts for more than two-thirds of the economy, rose at an inflation-adjusted, annualized rate of 4.3% in the second quarter, accelerating from the first quarter when it rose 1.1% and marking the strongest pace of growth since late 2017. Americans boosted spending on big-ticket items like cars as well as everyday goods like food and clothing. Government expenditures also boosted growth, rising at a 5.0% annual rate in the second quarter.

Friday's report is one of the last major readings of the economy's temperature Federal Reserve officials will see before their policy meeting July 30-31. Officials are prepared to cut their benchmark interest rate by a quarter percentage point from its current range between 2.25% and 2.5% to bolster the U.S. economy at a time of cooling global momentum.

The divergent signals from strong consumer spending and weakening business investment leave a mixed picture. The economy remains supported by low unemployment and rising incomes, but slowing global growth and uncertainties surrounding trade tariffs are all weighing on the outlook.

Growth readings can be volatile from quarter to quarter. Output rose 2.3% in the second quarter from a year earlier.

Joe Baiz, president of Phoenix-based plastic injection mold manufacturer 4front Manufacturing, said business "slowed a little bit in the second quarter," as worries over trade policy and tariffs generated "a lot of fear of the unknown."

Across the country, businesses took a more cautious approach to spending in the second quarter, according to the GDP report.

The rate of investment in structures plunged 10.6% in the second quarter while equipment spending advanced at a meager 0.7% rate.

Trade was a drag on growth as exports fell at a 5.2% rate while imports rose slightly.

Businesses destocked in the second quarter rather than built up supplies. Private, nonfarm inventory investment subtracted 0.85 percentage point from the quarter's 2.1% GDP growth rate.

The housing sector was a headwind for growth for the sixth quarter in a row as residential investment fell at a 1.5% annual pace, despite falling mortgage rates in the April to June period.

A measure of overall inflation rose. The price index for personal-consumption expenditures increased at a 2.3% pace in the second quarter, a pickup from a 0.4% rate in the first quarter. Core prices—which exclude food and energy—rose at 1.8% rate.

Growth this year is expected to clock in at a solid pace around the 2.3% averaged during the current expansion, which started in mid-2009 and this month became the longest on record.

Forecasting firm Macroeconomic Advisers on Thursday projected a GDP growth rate of 2.4% in the third quarter of 2019. Fed officials' median projection is for 2.1% growth from the fourth quarter of 2018 to the fourth quarter of 2019.

Many economists started 2019 expecting growth to slow from last year's pace because of the waning effects of tax cuts and federal spending increases.

One factor that generated uncertainty for businesses in the second quarter was the international trade situation, as the U.S. increased levies on Chinese goods and threatened, but didn't implement, tariffs on Mexican imports.

For American multinationals, "the number one concern is around trade and tariffs and what's going to happen there," said Sanford Cockrell, a managing partner at Deloitte LLP. As chief financial officers begin setting budgets for the 2020 fiscal year, "it's very difficult to budget in an environment where you really don't know where you're going to end up on tariffs," he said.

Earnings for the S&P 500 appear to have grown in the second quarter at their most anemic pace since mid-2016.

Earnings per share are expected to rise just 0.2% over second-quarter 2018, according to an estimate from financial-data firm Refinitiv, which combines analyst estimates with actual results from the 37% of companies that have already reported.

Many executives said the second quarter was slower than the same period in 2018, but business remains steady.

"Last year was stronger but it's still OK," said Keith Baldwin, president of Spike's Trophies, Ltd., a , Philadelphia-based manufacturer of awards and recognition products. "There's a little bit of caution but it's still OK."

—Theo Francis contributed to this article.

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