

Economic Indicator — April 30, 2025

GDP Contracts as Import Surge Brings Record Drag from Trade

Summary

The U.S. economy is at a greater risk of recession now than it was a month ago, but this 0.3% contraction in Q1 GDP is not the start of one. It reflects instead the sudden change in trade policy that culminated in the biggest drag from net exports in data going back more than a half-century.

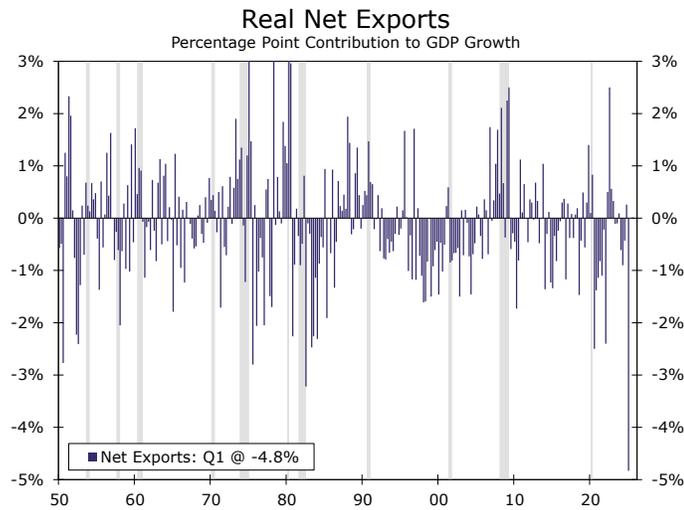
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Source: U.S. Department of Commerce and Wells Fargo Economics

Economy Falls into the Trade Gap

The U.S. economy contracted at a 0.3% annualized rate in the first quarter ([chart](#)). If you look at this development through the lens of businesses and households trying to get ahead of the tariffs, many of the big pieces of today's report fall into line. For starters, trade lopped 4.8 percentage points off of first quarter growth. It is rare for a drag that large to come from a comparatively small component of GDP such as net exports. In fact, we haven't seen a drag of this size in data going back to the late 1940s ([chart](#)). This is not because trade activity was grinding to a halt, but rather because imports shot up as firms tried to pull forward needed industrial supplies and retailers stocked their shelves with consumer goods.

Consumers pulled forward demand somewhat as well with overall PCE growth coming in stronger than expected at 1.8% during the period. That stronger-than-expected outturn exerted a 1.2 percentage point boost to the headline number which kept the contraction in GDP from being a larger one. While it might be handy to point to pre-tariff spending to explain the stronger consumer numbers, that is not an entirely accurate way to characterize what is happening. While monthly auto sales and anecdotal comments from retailers suggest a jump in March spending, most of the strength in PCE was in service outlays which rose 2.4%, much stronger than the 0.5% gain in goods outlays.

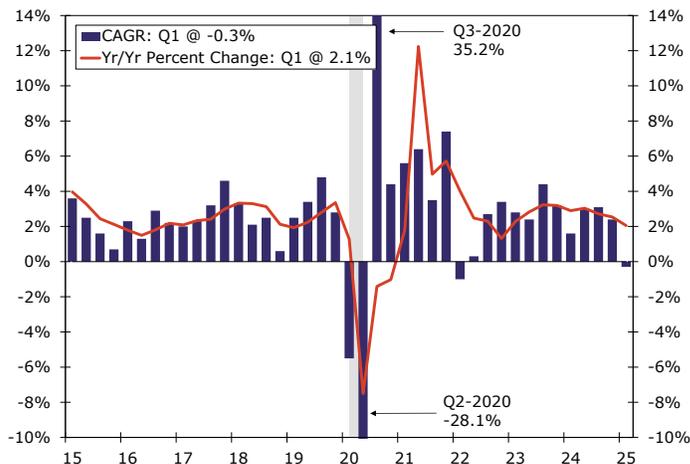
In a March report titled [April Showers](#), we previewed some of the economic tumult that was in store for this month, saying that in a climate of uncertainty, April would bring some hard details. On this 30th and final day of the month, the first look at Q1 GDP was more or less right in line with what we described in that preview note when we said that "in anecdotal conversations we're having with trucking and logistics clients, the rush to get product continued into March...if we see a continued pull-forward in demand, trade could be an even larger drag on first quarter growth."

The curious thing about today's report, in our view, is that despite the 4.8 percentage point drag from trade, there was only a partial offset (2.3 percentage point boost) from inventories. If firms and retailers were indeed pulling forward needed inputs and consumer goods, it stands to reason that stockpiling would have offered more of a counterweight. We would not be surprised to see the inventory figures revised higher in subsequent releases, perhaps even enough to change this small contraction to small growth.

In other words, cutting through tariff effects are challenging. We often look to real final sales to domestic private purchasers for a somewhat cleaner measure of underlying domestic demand. This measure rose at an 3.0% annualized pace in Q1, suggesting a relatively steady pace of growth ([chart](#)). Yet still this measure isn't a perfect indication of underlying demand today given consumers may have pulled forward *some* purchases toward the tail-end of the quarter and equipment investment received a jolt, up at a 22.5% annualized pace in Q1, primarily due to a pickup in aircraft shipments.

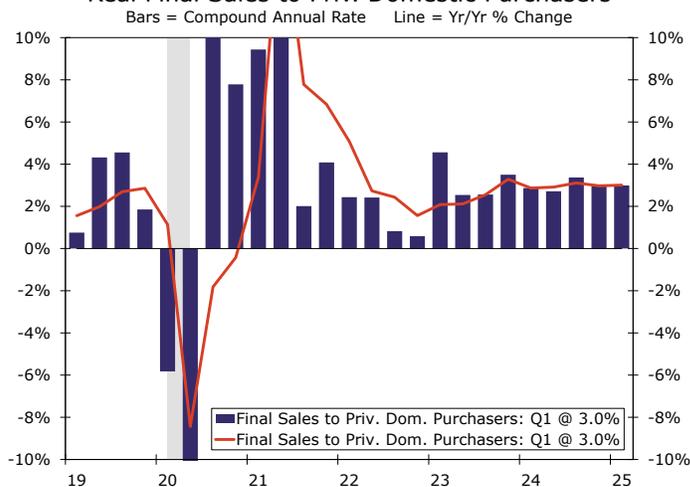
In a nutshell, tariff disruption introduced a lot of noise into the headline Q1 growth number. The question is for how long consumers and businesses can withstand uncertainty. If Q1 growth was influenced by a pull-forward in demand to get ahead of tariffs, to what extent should we brace for a hangover effect in Q2? Consumer and business optimism has tumbled as fear of inflation and recession permeate the economic environment. The U.S. economy is at a greater risk of recession today than it was even a month ago, but this contraction in GDP is not the start of one.

U.S. Real GDP Growth



Source: U.S. Department of Commerce and Wells Fargo Economics

Real Final Sales to Priv. Domestic Purchasers



Source: U.S. Department of Commerce and Wells Fargo Economics

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