Profile of the Economy

(Office of Macroeconomic Analysis)

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**Introduction**

Topline growth accelerated markedly in the U.S. economy during the second quarter, with real GDP growth advancing 3.0 percent. Lower real imports and faster consumer spending primarily drove GDP growth while the change in private inventories posed a large drag. Meanwhile, labor markets largely remained in balance with labor demand and supply both easing. The pace of job growth continued to slow on net over the quarter, while certain measures of labor force participation softened. As such, the unemployment rate was little changed over the past three months, initial unemployment claims remain near historically low levels, and real earnings growth has been positive.

Against this backdrop, some metrics have been mixed. Inflationary pressures, which began during the fourth quarter, continued through the first quarter but eased in the second. The Federal Reserve’s preferred inflation measure—the Personal Consumption Expenditure (PCE) price index—was 3.3 percent at an annualized rate over the three months of the first quarter and eased to 2.5 percent annualized from March to June. Nonetheless, quarterly inflation was still a half percentage point above the target. Other data have also been somewhat mixed. Household surveys suggest moods soured in the second quarter—with respondents expressing uncertainty about tariff policy—early third quarter data suggest stabilization. Meanwhile, the small business optimism index, though below the recent peak in January, remains above the 2024 average monthly reading as well as the long-term average level.

**Economic Growth**

Real GDP growth increased 3.0 percent at an annual rate in the second quarter, according to the advance estimate, after declining 0.5 percent during the first quarter. Although the acceleration was mainly a function of a large decline in imports which reversed a sharp increase in the first quarter, other components of GDP also drove growth, and several pieces of private sector data remained positive.

Decomposing GDP into smaller components can be helpful in explaining the economy’s performance. The four components we consider are: (1) private domestic final purchases (PDFP), the most persistent and stable component of output, consisting of personal consumption expenditures (PCE), business fixed investment (BFI), and residential investment; (2) government consumption and investment; (3) net international purchases (U.S. exports less U.S. imports); and (4) intermediate demand (or the change in private inventories). Examined separately, each component delivers specific information about activity in various sectors that can also be useful in predicting the future path of growth.

The first component, PDFP (also called “core” GDP), is particularly important to analyze: it measures the private sector’s capacity to drive self-sustaining growth and, therefore, may signal the direction of future economic performance. In the second quarter, real PDFP growth slowed somewhat to 1.2 percent—after rising 1.9 percent in the first quarter—but added 1.1 percentage points to total GDP growth. The slowdown reflected a deceleration in business fixed investment growth, following a surge in the first quarter, as well as a further decline in residential investment, which were partly offset by an acceleration in consumer spending.

Personal consumption of goods and services accelerated to 1.4 percent at an annual rate in the second quarter, contributing 1.0 percentage point to headline growth. This followed modest growth of 0.5 percent in the first quarter. Purchases of goods grew by 2.2 percent, picking up sharply from the first quarter’s 0.1 percent increase. Spending on durable goods rose by 3.7 percent, exactly offsetting the first quarter’s decline, while second-quarter expenditures on nondurable goods slowed to 1.3 percent (from 2.1 percent in the previous quarter). Growth of spending on services was 1.1 percent, almost double the 0.6 percent pace of the first quarter.

BFI increased 1.9 percent at an annual rate in the second quarter, slowing substantially from the 10.3 percent advance in the first quarter. The slowdown reflected a much steeper decline in business structures; investment in this category dropped 10.3 percent in the second quarter, after declining 2.4 percent in the previous quarter. Spending on business structures has weakened in recent quarters, after a robust showing between 2022 and mid-2024. Investment in equipment was positive but slower, rising 4.8 percent after surging 23.7 percent in the first quarter. Intellectual property products investment accelerated to 6.4 percent in the second quarter from a 6.0 percent pace in the prior quarter, posting growth for the nineteenth quarter of the past twenty.

Residential investment fell 4.5 percent at an annual rate in the second quarter, steeper than the first quarter’s 1.4 percent decline. The deeper contraction in the second quarter reflected a faster pace of decline in single-family structures and a further decline in multi-family structure investment.

Of the other components of GDP, the change in private inventories, albeit a volatile component, posed the largest drag on second quarter growth, while government spending was a slight positive for growth and net international demand made the largest contribution to real GDP growth. The change in private net inventory investment subtracted 3.2 percentage points from growth, after adding 2.6 percentage points to growth in the first quarter. Growth in overall public sector expenditures added 0.1 percentage point to real GDP growth in the second quarter, after shaving an identical amount from growth in the previous quarter. The boost came entirely from state and local government expenditures, which contributed to growth for the twelfth consecutive quarter; federal spending subtracted from growth for the second consecutive quarter. With regard to the international sector, the net export deficit added a record 5.0 percentage points to growth in the second quarter, after subtracting a record 4.6 percentage points from growth in the first quarter. Exports declined 1.8 percent in the second quarter, and pared 0.2 percentage points from growth, but imports fell 30.3 percent in the latest quarter and added 5.2 percentage points to growth, partly reversing the 37.9 percent surge in the first quarter.

**Growth of Real GDP**

(Quarterly percent change at annual rate)

**Labor Markets and Wages**

Labor supply and demand in the economy largely returned to normal balance by the end of last year and have remained stable thus far in 2025. Payroll job growth has gradually slowed from an average monthly gain of 168,000 in 2024 to an average of 111,000 per month during this year’s first quarter and then dropped to a monthly average of 64,000 during the second quarter following unusually large downward revisions. The latest labor report for July 2025 showed payrolls increased by 73,000 over the month, bringing the monthly average thus far this year to 85,000—though this pace is largely consistent with recent estimates of the break-even rates needed to maintain a steady unemployment rate given recent population growth.

The unemployment rate has been remarkably stable over the past year: since May 2024, it has hovered in the narrow range of 4.0 and 4.2 percent and stood at 4.2 percent as of July 2025. A broader measure, which captures underemployment of the workforce, declined during the latter half of 2024 to end the year at 7.5 percent, where it remained in January 2025. Since then, however, it has fluctuated between 7.7 percent and a high of 8.0 percent (reached in February), and in July, stood at 7.9 percent, or 0.4 percentage points above the level at the end of last year. Even so, the underemployment rate and especially, the unemployment rate remain relatively low by historical standards. More timely data also suggest that unemployment remains relatively low. As of the week ending August 16, the level of initial unemployment insurance claims had increased by about 12 percent from the end of December 2024, and as of the week ending August 9, the level of continuing unemployment claims had increased by roughly 5 percent over this timeframe. These readings are each about 10 percent higher than those in February 2020, just before the start of the COVID-19 pandemic in the United States.

The labor force participation rate (LFPR) rose to an average 62.7 percent during last year’s third quarter, before declining to an average 62.5 percent during the fourth quarter and remaining at that rate during the first quarter of 2025. Since then, the LFPR has trended lower, and stood at 62.2 percent in July, a 3½-year low, but still signaling a relatively strong supply of labor. Prime-age (ages 25-54) worker participation has underpinned overall participation: after reaching a 23-year high of 83.9 percent in July and August 2024, the prime-age LFPR drifted lower, standing at 83.4 percent at the end of the year. In 2025, the rate has fluctuated near that level and stood at 83.4 percent in July 2025, still 0.3 percentage points higher than the rate in February 2020, just prior to the start of the pandemic.

Along with the relatively resilient supply of workers, a moderation in labor demand has helped to restore balance in the labor market. The number of job openings (or vacancies) had declined by roughly 11 percent over the year ending March 2025, extending a downward trend which began in March 2022. Since then, however, labor demand has trended somewhat higher; over the year through June 2025 (latest data available), the number of job openings has increased by 0.3 percent. The ratio of job vacancies to unemployed workers also has gradually declined since the spring of 2022; as of June 2025, there were 1.06 job openings per unemployed worker, down from the pandemic-related record high of 2.02 vacancies and the 2019 average of 1.19. The combination of stable labor supply at relatively high levels (mainly due to still-elevated participation) and a more pronounced downtrend in job openings continues to foster a balancing of labor supply and demand.

Measures ofwage growth in the private sector have shown some signs of easing in recent months. Looking at quarterly averages of twelve-month growth rates, nominal average hourly earnings of all private sector employees grew by 4.1 percent per month during last year’s final quarter, then slowed to 3.9 percent and 3.8 percent in the first and second quarters of 2025, respectively. Over the twelve months through July, earning growth ticked up again to 3.9 percent. These yearly rates are considerably below the post-pandemic peak of 5.9 percent in March 2022, but higher than the 3.0 percent rate over 2019. However, growth of earnings in real terms strengthened in mid-2024, peaking at 1.5 percent over the year through October 2024 and has remained positive since then. After tapering through February 2025, twelve-month real earnings growth picked up to 1.4 percent in March, April, and May, before easing again to 1.2 percent over the year through July 2025. An alternative measure of wage growth, the Employment Cost Index (ECI), suggests that wage pressures have been receding for some time now. (The ECI controls for employment shares among industries and occupations, making it a better reference for wage growth.) Over the four quarters through June 2025, the ECI for private sector wages and salaries grew 3.5 percent, slowing from 4.1 percent over the year earlier period. ECI growth has gradually slowed since reaching a near 40-year high of 5.7 percent in June 2022.

**Payroll Employment**

(Monthly average for year shown and monthly amounts, in thousands)

**Unemployment Rate**

(Percent)

**Prices**

After peaking in June 2022 at 9.1 percent on a twelve-month basis, headline inflation as measured by the consumer price index (CPI) slowed significantly over the intervening years, dropping to a four-year low of 2.3 percent in April 2025, before rising to 2.7 percent in June as well as July. On a monthly basis, after declining by 0.1 percent in March, headline inflation rates have remained between 0.1-0.3 percent and stood at 0.3 percent in July.

During the first quarter of 2025, energy price inflation was negative before turning positive on average in the second quarter. In July 2025, energy prices fell 1.1 percent. On a twelve-month basis, however, energy prices have deflated in ten of the past eleven months, including a 1.6 percent drop over the year through July 2025. The downtrend has reflected concerns about the effect of tariffs on global growth and attendant demand for crude oil, and the impact of rising global crude supplies—factors which continue to offset the effects of rising geopolitical tensions in Europe and the Middle East.

Food price inflation picked up to an average 0.3 percent during the final quarter of 2024 and held steady at that pace in this year’s first quarter before slowing to 0.2 percent in the second quarter. In July, food prices were unchanged. On a twelve-month basis, food price inflation had slowed to the recent low of 2.1 percent through October 2024, less than one-third the peak rate in the autumn of 2022 and just above the pace of inflation seen before the pandemic. Since then, however, yearly food price inflation has accelerated, touching a seventeen-month high of 3.0 percent in March and again in June before ticking down to 2.9 percent over the year through July. While the *rate of change* in food prices is steady to slower compared to pandemic-era highs, price *levels* for food remain higher than they were before the pandemic.

Core inflation, which excludes energy and food, slowed to an average 0.2 percent per month during the first and second quarters of this year from an average of 0.3 percent in the second half of 2024. In July, core inflation edged up to 0.3 percent. Over the twelve months through July, core inflation accelerated to 3.1 percent, the fastest pace since February, and up from the four-year low of 2.8 percent posted in March, April, and May.

Core goods prices were on a declining trend between June 2023 and August 2024, then drifted higher thereafter. In July, core goods prices were up 0.2 percent, driven by a 0.4 percent advance in durables prices. On a twelve-month basis through July 2025, core goods price inflation was 1.2 percent, the fastest rate of increase since June 2023.

Core services inflation remains the driving force behind core CPI readings. Monthly core services inflation averaged 0.3 percent in each of the past three quarters through Q2 . In July, core services inflation ticked up to 0.4 percent, the fastest monthly pace since January. Among core services, rent of housing services (rent of primary residential and owners’ equivalent rent, or OER) has the largest weight in the core CPI, and monthly inflation for this component largely hovered between 0.3 percent and 0.4 percent since February 2024 and stood at 0.2 percent in July. Over the year through July 2025, rent of housing inflation was 4.0 percent, the slowest pace since January 2022.

Inflation for non-housing core services has been an integral driver of elevated core inflation. Significantly, inflation in this metric slowed to an average 0.2 percent during the first and second quarters of 2025, from an average 0.3 percent during the latter half of 2024. The slowing pace of core non-housing services inflation during the first half of 2025 largely reflected normalization of auto insurance rates as well as a drag from airline fares. However, in July 2025, core non-housing service price inflation accelerated to 0.5 percent, the strongest monthly reading since January. Over the year through July, inflation for core non-housing services picked up to 3.2 percent, reflecting sharp increases in medical care services prices, a rebound in airline fares, and a small increase in motor vehicle insurance.

Inflation as measured by the PCE price index is the Federal Reserve’s preferred measure of inflation: the FOMC’s 2 percent inflation target is expressed in terms of headline PCE, and core PCE inflation is also taken into consideration. There are notable differences in weights and methodologies between the CPI and the PCE measures. Historically, twelve-month CPI inflation has exceeded PCE inflation by about 0.4 percentage points on average. During 2024, however, the wedge widened, averaging 0.6 percentage points in the year’s first half. As core services price growth slowed, the wedge narrowed noticeably, averaging 0.3 percentage points during last year’s latter half, then narrowing to an average 0.1 percentage point during the first half of 2025. Headline PCE inflation slowed during 2024 and was 2.1 percent over the twelve months through September—or 0.1 percentage point above the FOMC inflation target—while core PCE inflation was 2.7 percent over that same period. By June 2025 (latest data available), twelve-month headline PCE inflation had re-accelerated to 0.6 percentage points above the target, or 2.6 percent, and the core reading was 2.8 percent.

**Consumer Prices**

(Percent change from a year earlier)

**Housing Markets**

Housing activity was generally lower during the second quarter: total starts and permits were lower, on average, and homebuilder confidence continued to deteriorate. Meanwhile, overall home sales have been flat to lower.

Net single-family planned and new construction, as measured by permits and starts, declined again in the second quarter, before turning up in the most recent month. After an average decline of 0.6 percent per month in the first quarter, single-family permits dropped 3.8 percent per month on average during the second quarter, before turning up by 1.0 percent in July. New single-family starts increased at an average 0.3 percent in the second quarter, after dropping by an average 3.2 percent per month during the first quarter. Notably, new single-family permits were down 1.2 percent on a monthly average basis during the second quarter, a smaller decline than the 3.7 percent average monthly drop in the first quarter but did advance 2.8 percent in July. But trends in planned as well as new home construction levels diverged on a yearly basis: over the twelve months through July 2025, single family permits were down 7.4 percent, while starts increased by 7.8 percent.

Levels of planned and new construction for multi-family units (condominiums, co-ops, and apartment buildings) both improved in the second quarter, after diverging in the first quarter. On average, permits increased 1.2 percent per month in the second quarter, after rising by 1.4 percent per month in the previous quarter, marking the first three consecutive positive quarterly readings since late 2020/early 2021. Moreover, starts surged by an average 6.1 percent per month in the second quarter, after declining by 1.5 percent on the same basis in the first quarter. Over the year through July 2025, multi-family permits were down 0.8 percent (after four consecutive months of twelve-month gains), while starts jumped 24.1 percent.

Continuing construction activity slowed further over the second quarter. Total construction dropped by 3.2 percent, following a 1.8 percent decline over the first quarter. The steeper contraction in the second quarter reflected a 5.1 percent plunge in multi-family construction as well as a 0.9 percent retreat in single-family building. At 1.357 million as of July 2025, the total number of units under construction was well down from the record high of 1.715 million reached in October 2022 (data series begins in 1970) but still above the 2019 average of 1.148 million.  Home builder confidence, as measured by the National Association of Home Builder’s Housing Market Index, has trended sharply lower since January, and in June as well as August stood at a 2½-year low of 32.

Home sales have been mixed in recent quarters and existing home sales remain near lows last seen in the aftermath of the global financial crisis.  Existing home sales—which account for a supermajority of all home sales— declined in most months from August 2021 to September 2024 but rose by an average 3.2 percent per month in the final quarter of 2024 and were 9.7 percent higher over the year through December 2024. The downward trend resumed this year, however as sales fell by an average 2.0 percent in the first quarter and by 0.7 percent in the second quarter. However, sales were still up modestly on a yearly basis, rising 0.8 percent over the twelve months through July 2025. Since mid-2022, by contrast, new single-family home sales have been roughly in line with sales levels during 2018 and 2019. Although above pre-pandemic readings, new home sales currently account for only about 15 percent of total home sales and have been volatile month-to-month.  Sales in this category rose by an average 0.1 percent per month in the second quarter, following a 2.7 percent decline on an average monthly basis in the first quarter. However, twelve-month readings have been negative thus far in 2025: new home sales plunged 8.2 percent over the year through July 2025.

Inventories of existing homes for sale have trended up thus far in 2025, with months’ supply of existing homes for sale at 4.6 months in July, up from 4.0 months a year earlier. Even so, the level of inventories remains below pre-pandemic readings as current homeowners are locked into low, pandemic-era mortgage rates. The new home market does not suffer from the same lock-in effect, and inventories are well above pre-pandemic levels. Inventories of new homes on the market increased to 9.2 months of supply in July from 8.2 months in December 2024. Before the pandemic, a supply of roughly 6 months was typical for the new home market.

Movements of home price growth rates fluctuated on a month-to-month basis last year and early this year, but twelve-month measures have slowed more consistently. Relative to peak rates, however, home price growth has slowed considerably to paces below pre-pandemic era rates. The S&P Cotality Case-Shiller 20-city house price index—which measures sales prices of existing homes—was relatively stable in 2024, increasing by an average 0.4 percent per month during the first as well as the second halves of the year. During the first quarter of 2025, prices rose by an average 0.2 percent per month but in the second quarter, house price growth turned negative, declining by an average 0.3 percent per month. Over the year through June 2025, the 20-city index was up 2.1 percent, slower than the 6.6 percent, year-earlier advance (and a small fraction of the 21.3 percent twelve-month peak rate posted in April 2022).  The FHFA purchase-only house price index accelerated during the latter half of 2024 to an average 0.5 percent per month, before slowing to an average gain of 0.1 percent per month during the first quarter of 2025. In the second quarter, the FHFA index dropped by an average 0.2 percent per month. Over the year through June 2025, the FHFA measure was up 2.6 percent, less than one-half of the 5.5 percent pace over the year through June 2024 (and less than one-sixth of the peak rate of 19.0 percent posted over the year through July 2021).

**Consumer and Business Sentiment**

Although measures of business and consumer mood improved, on balance, towards the end of 2024, they have trended lower, on balance, thus far in 2025. Last year, the University of Michigan consumer sentiment survey’s transition to a fully online survey was completed in July 2024, facilitating comparisons only from that point forward. Between July and December 2024, the index trended higher, reaching 74.0. Thereafter, however, the index declined to 52.2 in April as well as May, roughly 25 points below the year-earlier readings and one of the lowest levels on record. Since then, the index has improved somewhat and stood at 58.6 in early August, a survey that registered a large drop in the current conditions index but a much smaller decline in the expectations component. However, the early August survey also featured an increase of 0.4 percentage points in the median year-ahead expected inflation rate to 4.9 percent (albeit an improvement from much higher readings in earlier months). Respondents’ views about buying conditions for durables fell to the lowest level thus far in 2025, reflecting heightened concerns about elevated prices.

The Conference Board’s alternative household sentiment survey has not had a similar methodological change, making interpretation of sentiment changes relative to prior periods simpler. The headline consumer confidence index trended higher—largely driven by gains in the expectations component—between spring 2024 until November 2024, when it climbed to a 16-month high of 112.8. The index then fell sharply to 85.7 in April 2025, the weakest reading since the pandemic low in April 2020. Since April, the index has generally trended higher and stood at 97.4 in August. Even with the recent improvement, the consumer confidence index is still nearly 32 points lower than the June 2021 post-pandemic high of 128.9. Between spring 2024 and late 2024, the expectations component had largely driven previous gains in the headline index, while the present situation index had been relatively flat. This year, both components have generally trended lower; in August, the Expectations Index declined 1.2 points to 74.8, remaining below The Conference Board’s threshold level of 80 for the seventh consecutive month, indicating that recession risk is elevated.

Turning to private firms, the National Federation of Independent Business’s (NFIB) small business optimism index rose sharply in November and December 2024, reaching 105.1 in December 2024, the highest level since 2018 and well above the 51-year average of 98.0. As of July, however, the index was modestly lower at 100.3, above the long-term average of 98 and standing 7.3 points above the average in 2024.

**Federal Budget Deficit and Debt**

In FY 2024, which ended last September, the deficit widened by $138 billion to $1.83 trillion, equal to 6.4 percent of GDP as an increase in outlays more than offset rising receipts. Outlays rose by $617 billion to $6.75 trillion (23.4 percent of GDP) in FY 2024, partly reflecting increased net interest payments on the federal debt, a sharp drop in proprietary receipts by the Department of Education, and higher spending on Social Security and Medicare due to demographic aging. Meanwhile, total federal receipts jumped by $479 billion to $4.92 trillion (17.1 percent of GDP) in FY 2024. The rise in receipts was partly due to strong labor markets (which pushed up individual income tax withholdings and social insurance receipts), capital gains realizations, and the payment of some delayed taxes from FY 2023 (such as from households impacted by natural disasters). Between October 2024 and July 2025, the deficit was $1.63 trillion, or $112 billion higher than the comparable period in FY 2024. Federal receipts were 6.4 percent higher, while federal outlays were 6.7 percent higher than the first seven months of FY 2024.

The Treasury’s borrowing limit was reinstated on January 1, 2025. Then, on July 4, 2025, with the passage of the One Big Beautiful Bill Act, the debt limit was increased by $5 trillion to $41.1 trillion. At the end of FY 2024, gross federal debt stood at $35.5 trillion, while debt held by the public was $28.3 trillion. As of the end of July 2025, gross federal debt stood at $36.9 trillion, while debt held by the public was $29.5 trillion.

**Monetary Policy**

At the September 2024 meeting of the Federal Open Markets Committee (FOMC), the Committee initiated the current monetary easing cycle with a cut of 50 basis points, followed by another cut of 25 basis points at the early-November meeting and an additional reduction of 25 basis points at the December meeting. At each of the five FOMC meetings since December, the Committee has maintained the target range at 4.25-4.50 percent.

In the statement accompanying the July meeting, the FOMC observed that, “Although swings in net exports continue to affect the data, recent indicators suggest that growth of economic activity moderated in the first half of the year. The unemployment rate remains low, and labor market conditions remains solid. Inflation remains somewhat elevated.” The statement added that, “Uncertainty about the economy outlook remains elevated.” The statement also repeated that “In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks.”