First Trust
Portfolios Canada®
Monday Morning OUTLOOK

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More of the Same

The more things change, the more they stay the same.

The US economy grew 2.0% in 2025 and it looks like it is growing another 2.0% this year. Real GDP grew at a 2.1% annual rate in the first quarter and, as we set out below, it looks like it grew at a 2.0% rate in the second quarter.

Which doesn't mean everything is steady as she goes. Data centers are where the action is and continue to grow rapidly, with the nominal value of construction of these structures up 23.0% from a year ago. Likewise, shipments of computers and related products plus communications equipment are also up 23.0% from a year ago.

As we wrote in a recent Three on Thursday, capital spending by hyperscalers – like Amazon, Google, Meta, Microsoft, and Oracle – are projected to be almost $700 billion in 2026, which is $300 billion higher in 2026 than in 2025. That alone would account for a full one percentage point of GDP growth. In turn, that figure is in-line with findings from a recent paper from the St. Louis Fed on AI's contribution to GDP growth.

Yes, it is possible that without all the investment in AI that other companies in other sectors would have easier access to capital and invest more, and that one percentage point figure doesn't account for "crowding out" that other investment. But it's also the case that AI investment has led to more activity on sectors outside the technology sector, like power generation and water supply, and we are not counting that "crowding in," either.

The bottom-line is that in spite of the tailwind of AI and technological innovation, the overall economy is not booming.

Consumption: Auto sales soared at a 22.3% annual rate in Q2 while "real" (inflation-adjusted) retail sales excluding autos rose at a 6.8% rate. However, real service spending – which makes up the lion's share of consumer spending – appears up at only a 1.4% pace. Combined, this brings our estimate of real consumer spending to a 2.2% rate, adding 1.5 points to the real GDP growth rate (2.2 times the consumption share of GDP, which is 68%, equals 1.5).

Business Investment: We estimate a 5.7% growth rate for business investment, with gains in equipment and intellectual property leading the way and commercial construction a continuing drag on growth (even including data centers, which are booming!). A 5.7% growth rate would add 0.8 points to real GDP growth. (5.7 times the 14% business investment share of GDP equals 0.8).

Home Building: Residential construction looks to have been unchanged in the second quarter, which is a victory of sorts considering it has contracted in every quarter since 2024. We think this reflects a lack of workers to build homes while strict immigration enforcement makes more units available for rent. Unchanged home construction means zero effect on the economy's growth rate. (0.0 times the 4% residential construction share of GDP equals 0.0).

Government: We are estimating that government purchases were still recovering in Q2 after the temporary shutdown of the federal government in the fourth quarter. Modest growth at a 1.2% rate should add 0.2 points to the GDP growth rate (1.2 times the 17% government purchase share of GDP equals 0.2).

Trade: It looks like the trade deficit grew in the second quarter due to a surge in goods imports, although this forecast may change when a preliminary trade report arrives Tuesday morning. For now, we're projecting net exports will reduce the Q1 real GDP growth rate by 0.8 percentage points.

Inventories: We expect businesses added to inventories in the second quarter versus a decline in Q1, which should add what we estimate to be 0.3 percentage points to real GDP growth.

Add it all up, and we get a 2.0% annual real GDP growth rate for the first quarter, which would be lower if not for the boom in data centers.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-27 / 7:30 am	Durable Goods – Jun	+1.8%	**+1.0%**	+0.3%	-4.0%
7:30 am	Durable Goods (Ex-Trans) – Jun	+0.8%	**+0.8%**	+0.6%	+1.8%
7-30 / 7:30 am	Initial Claims – Jul 25	200K	**198K**		187K
7:30 am	Q2 GDP Advance Report	+2.1%	**+2.0%**		+2.1%
7:30 am	Q2 GDP Chain Price Index	+3.7%	**+5.0%**		+3.6%
7:30 am	Personal Income – Jun	+0.3%	**+0.3%**		+0.7%
7:30 am	Personal Spending – Jun	+0.3%	**+0.4%**		+0.7%
7-31 / 7:30 am	Q2 Employment Cost Index	+0.8%	**+0.8%**		+0.9%
8:45 am	Chicago PMI – Jul	56.0	**59.2**		56.7