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What Could Stop the US Slide into Recession?

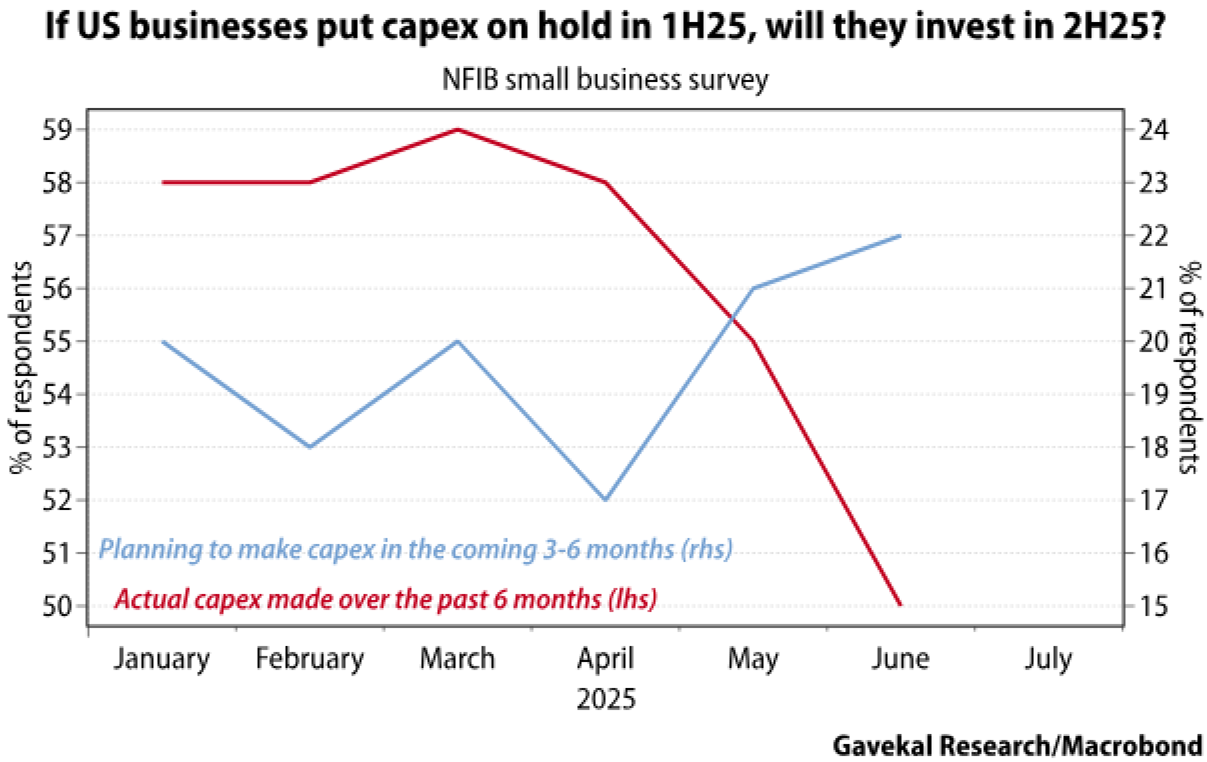
Tan Kai Xian | August 6, 2025

Led by Friday's weak payroll report and Tuesday's soft PMI release from the Institute of Supply Management, growth fears in the United States are again on the rise. The sum of these economic readings duly raises a question, but does not yet point to a recession. On this basis, it is worth asking what factors could spur countervailing growth to offset the current soft patch. One such candidate is business capital expenditure.

A surge in uncertainty after President Donald Trump's April 2 declaration on tariffs caused many US businesses to put investment plans on hold. Yet having waited for the dust to partially clear on the global trade war, many seem ready to step back into the fray. With bank deregulation now coming through and the One Big Beautiful Bill Act's fiscal expansion set for next year, there are tangible reasons for US companies to invest domestically.

In the second quarter, US nonresidential fixed investment slowed to 1.9% quarter-on-quarter annualized in real terms, down from 10.3% in the first quarter, according to the latest GDP report. This matched the NFIB small business survey, which showed those *undertaking* capital investments in the past six months falling from 59% in March to 50% in June.

Notably, over the same period, the share *planning* capital expenditures in the next three to six months rose from 20% to 22%. This pattern suggests that US firms have wanted to invest but held back due to tariff uncertainty.



There are three main reasons that US businesses both want and are able to raise capital expenditures. First, their balance sheets hold significant cash reserves that can be used for investment. Second, by historical standards, the financing gap—the difference between capital expenditure and gross savings—is low and only slightly positive. This indicates that most capital spending is funded internally, reducing sensitivity to interest rate changes and external financing conditions. Third, even when borrowing is required, the corporate return on invested capital remains well above the weighted average cost of capital, allowing businesses to borrow and invest profitably (see US Wicksellian spreads in **Gavekal Indicators Dashboard**).

Tariff uncertainty, rather than a deterioration in financial conditions, was the main factor limiting US business capital expenditures. Confidence in the US C-suite fell sharply after the reciprocal tariff announcement in April, according to a Chief Executive Group study. Because senior executives drive major capital spending decisions, this drop weighed heavily on investment. With Trump's tariff threats now eased, CEO confidence has rebounded—a positive sign for capital expenditures. Confidence has also improved among US equipment financiers, mostly banks, according to a leading industry body. In short, with trade agreements being put in place, US companies now have both the confidence and the financial capacity to invest in capital projects (see **Japan's Flaky Trade Deal**).

Looking ahead in the coming year, the Trump administration has created three particular incentives for companies to invest.

1. The Fed's senior loan officer survey shows US banks are increasingly willing to lend. At the same time, banking deregulation is under way. Capital requirements for the largest banks have already been eased by the Federal Reserve and other front line regulators in the second half of the year (see **The Other Side Of The Fed**). As a result, US banks should be incentivized to extend more credit.

2. The OBBBA's 100% bonus depreciation for factories and equipment bought after January 2025 encourages fresh capital investment. It builds on the CHIPS and Inflation Reduction acts, which spurred a manufacturing boom. Trump's incentives now apply to many factories built under those programs (see **Stirrings From US Manufacturing**).

3. The OBBBA is expected to increase the US budget deficit by US$3.4trn between 2025 and 2034, with most of the rise occurring in 2026 (see **Fiscal Drag Before The Fun Starts**). In anticipation of the business boost this fiscal expansion could bring, US companies may choose to invest in the second half of this year.

It could even be argued that Trump's strict immigration policy will tighten the labor market and so raise the attractiveness of labor-replacing equipment and software (think raspberry pickers or store checkout staff). Perhaps, but fewer additions to the population probably means softer final demand, while slower labor force growth implies less demand for associated plant and equipment. All else equal, stricter immigration is likely to be a net drag on investment growth (see **US Business Capex: Show Me The Incentive** and **The US Immigration Flip-Flop**).

Still, taken in the round, the balance of all of the drivers considered above points to US capital spending improving in the near term. After the April tariff shock, this should be enough to avert a slide into recession.