

Inflation Ticks Down, Consumer Spending Barely Budes

By Dees Stribling

The U.S. Bureau of Economic Analysis reported on Friday that the rate of increase for its personal consumption expenditures index for July was lower than June's, indicating a slowdown in the pace of inflation.

Year-over-year, the PCE index was up 6.3% in July, compared to a 6.8% annual increase in June, which was a 40-year high, the BEA reports.

The index is a measurement of prices paid by U.S. households, and it is reportedly the Federal Reserve's preferred metric when it comes to gauging inflation.

Much of the recent inflation has been spurred by this year's spike in energy prices, and the slowing of overall price growth reflects recent drops in energy prices, especially gasoline. Month-over-month, according to the bureau, energy prices fell 4.8% in July.

Moreover, the trend of lower gas prices has continued since the the end of July. According to AAA, the nation's average gas price per gallon as of Friday was \$3.86, down from \$3.91 a gallon a week earlier and \$4.32 a month ago.

Food prices are still increasing, however, up 1.3% for the month in July.

U.S. consumers seem to be responding to inflation by cutting back on spending.

Consumer spending rose 0.1% in July compared with June, per BEA data, compared with June's 1% increase over May. This summer, Americans spent less on certain goods — including gasoline — though they spent more on services and long-lasting goods.

The cooling of inflation may be a factor as the Federal Reserve ponders its next move on interest rates. In July, the central bank raised its benchmark rate by 0.75%, following an increase of the same size the month before.

Yet it seems likely that the Fed will continue to raise the cost of money, if Chairman Jerome Powell's speech in Jackson Hole, Wyoming, on Friday is any indication.

Powell acknowledged in his talk, given at the Fed's annual economic symposium, that higher interest rates will cause pain for many households and businesses, potentially leading to job losses.

"These are the unfortunate costs of reducing inflation," Powell said, according to a transcript of the speech. "But a failure to restore price stability would mean far greater pain."