



Basis Points – Aug 3 2023

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Fed Hikes 25 Basis Points at the July Meeting

The Federal Reserve hiked the federal funds rate 25.0 basis points to 5.25%-5.50%. The statement released by the Fed contained virtually the same information as its previous statement. Job gains have been robust, the economy has been expanding at a moderate pace and inflation remains elevated. The Fed does not meet again until September.

U.S. Economy Continues to Grow, Defying Calls for Recession

The economy accelerated at an annualized rate of 2.4% in the second quarter, according to the second estimate of gross domestic product (GDP). GDP increased 2.0% in the first quarter. Compared to the first quarter, the acceleration in GDP in the second quarter primarily reflected an upturn in private inventory investment and an acceleration in nonresidential (business) fixed

investment. These movements were partly offset by a downturn in exports and decelerations in consumer spending, federal government spending, and state and local government spending. Imports, which are a negative in the calculation of GDP, decreased. The personal expenditures (PCE) price index increased 2.6%, down from a 4.1% increase in the first quarter. Consumer spending rose 1.6% in the second quarter, following an increase of 4.2% in the first quarter.

Inflation Continues to Slow Down but Still Above Fed Target

Consumer prices, as measured by the PCE price index, rose 0.2% in June. Prices, less food and energy, also increased 0.2% from May. Since June 2022, consumer prices are up 3.0%, the lowest yearly price increase since March 2021, when the advance was 2.5%. The PCE price index, the preferred measure of inflation for the Fed, is clearly ebbing but has yet to reach the 2.0% target rate of the Fed. Personal income and disposable personal income rose 0.3% last month. Consumer spending increased 0.5% in June.

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