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SMALL BUSINESS

Consumer Spending Grew 7.7% in December

Monthly household spending grew by 7.7% in December from a year earlier, down from a high of 9% reached in August, according to survey results released by the New York Fed on Tuesday.

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By Jonnelle Marte, Bloomberg News (via TNS).

Spending by U.S. consumers is growing at a slower pace and the share of households making major purchases in recent months declined, according to a report from the Federal Reserve Bank of New York.

Monthly household spending grew by 7.7% in December from a year earlier, down from a high of 9% reached in August, according to survey results released by the New York Fed on Tuesday. That growth is still above the 5.1% growth seen in December 2021 and remains “well above” the pre-pandemic level of 2.5%, according to the report.

Fed officials are attempting to cool spending — and in turn tame price growth — by rapidly raising borrowing costs. The U.S. central bank lifted its benchmark rate by 50 basis points to a range of 4.25% to 4.5% in December, up from near zero levels last March. Median projections show policymakers see rates rising to above 5% this year, and officials are largely expected to raise rates by a quarter point when they meet next on Jan. 31 to Feb. 1.

The New York Fed survey showed that spending growth may be slowing as interest rates rise but still remains elevated.

The share of households that made at least one large purchase in the previous four months dropped to 56.4% in December, lower than the 61.7% who reported major purchases in August and the 58.1% who did so in December 2021.

When asked what they would do with an unexpected 10% bump in income, households said they expected to use a larger share of that money to pay down debt when compared to a year earlier. They also said they expected to allocate smaller portions of that additional income to spending, saving and investing.

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