

# Inflation slowed in July, but consumers see little relief

## Article

**The news:** Inflation was lower than expected in July as energy and gas prices fell, but food and shelter costs continue to eat into consumers' buying power.

- The **Consumer Price Index (CPI)** rose **8.5% year-over-year (YoY)** in July—less than the 9.1% acceleration [seen in June](#), [per](#) the US Labor Department.

- At the same time, **online prices fell for the first time in over two years in July**, per Adobe's Digital Price Index. Prices declined by 2% month-over-month (MoM) and 1% YoY.

**Food costs grow:** Despite the encouraging numbers, food prices show no signs of falling as shortages related to the war in Ukraine and high labor, commodities, and supply chain costs push companies to continue raising prices.

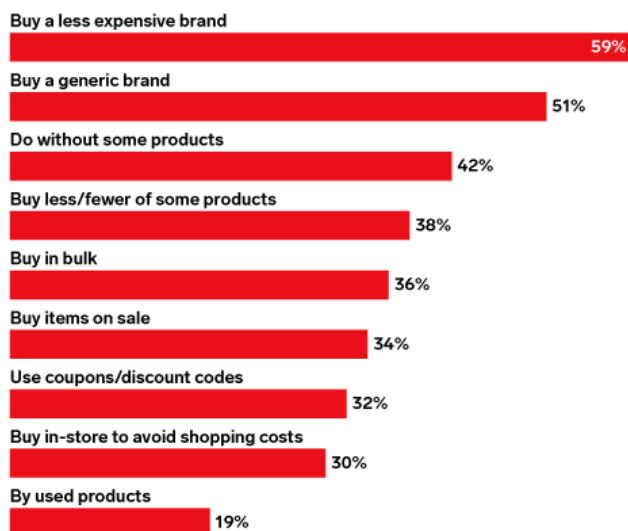
- **Food prices are up 10.9 % YoY**, the largest YoY increase since May 1979.
- The food at home index rose 1.3% MoM thanks to price increases across all six major grocery food groups.
- Online grocery prices grew more than any other category, rising 1.4% MoM and 13.4% YoY, for the 30th consecutive month of growth.

**Consumers feel the squeeze:** Nearly two-thirds (63%) of US adults worry about affording food and other basic necessities for themselves or their families, per a July PYMNTS survey.

- Almost half (47%) reported that price increases led them to dip into savings to cover expenses.
- Shoppers are continuing to trade down and spend less on non-food categories. In the four-week period ending July 24, private labels gained share in staple categories including eggs, sugar, and butter, per IRI.
- **McDonald's, Chipotle, and Yum Brands** reported lower-income customers pulling back on visit frequency and order size.

## Ways US Consumers Are Cutting Costs, May 2022

% of respondents



Source: Jungle Scout, "Consumer Trends Report: Q2 2022," June 23, 2022

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**A bit of relief:** However, consumers may be seeing some price relief in the form of heightened promotional activity from brands and retailers.

- Retailers saddled with excess inventory—including **Macy's** and **Walmart**—have slashed prices to move stock.
- CPG brands and grocery stores are offering more discounts to prevent customers from trading down to cheaper brands or discount stores. Promotional activity in many food and beverage categories is close to where it was pre-pandemic, per IRI.
- Some retailers like **The Gap**, **Zulily**, and **Primark** have locked in prices over the next few months to attract back-to-school shoppers and increase customer goodwill.

**The big takeaway:** Declining energy, gas, and apparel prices may be easing the pressure on consumers, and forestalling aggressive action from the Fed to hike interest rates again.

- But consumers still face decreased spending power: While real wages rose 0.5% MoM in July, they're down 3.6% YoY.
- That makes it unlikely for shoppers to change their cost-conscious behaviors anytime soon.

**Go further:** [Read our report on the Era of Uncertainty here.](#)

## Impact of Inflation on US Adults, by Category, April 2022

% of respondents in each group

	Spending priority	Cutting back
Groceries	56%	33%
Gas	43%	32%
Rent/mortgage	29%	6%
Healthcare	18%	9%
Household goods	16%	21%
Vehicle prices	13%	18%
Education	13%	11%
Dining out	12%	48%
Childcare	12%	10%
Apparel, footwear & accessories	11%	31%
Entertainment and recreation	10%	32%
Home decor and furniture	8%	21%
Travels/hotels/flights/vacations	7%	23%
Gym memberships	7%	12%

Source: First Insight, "The State of Consumer Spending: Inflation Impacting Consumer Confidence," May 5, 2022

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