Wages Have Outpaced Inflation. But Not for Everyone.

On average, pay has risen faster than prices in recent years. But the overall picture is complicated — and it's not just facts versus "vibes."

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By Ben Casselman

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Have Americans' paychecks kept up with the cost of living over the past several years?

It is a surprisingly difficult question to answer.

According to most Americans, the answer is a clear "no." In polls and interviews ahead of the presidential election, people of virtually all ideologies and income levels say inflation has made it harder to make ends meet, eclipsing whatever raises they have managed to win from their employers.

According to economic data, the answer appears, at least on the surface, to be "yes." Income and earnings have outpaced inflation since the start of the pandemic, according to a variety of both government and private-sector sources. That is especially true for the lowest earners — a partial reversal of the rising inequality of recent decades.

But this is not a simple case of facts versus "vibes." Economic statistics are based on broad averages. Dig deeper, and the story becomes more complicated. How a given family or individual has fared over the past five years depends on a litany of factors: whether the earners own their home or rent; whether they had to buy a car or send a child to day care; whether they were able to change jobs or demand a raise.

"I feel like some people are being very dismissive, saying, 'Oh, people are wrong — there has been all this real wage growth,' but that is a simple average," said Stefanie Stantcheva, a Harvard economist who has studied how people experience inflation. "It's actually very, very hard to say people are wrong — I would almost never say that."

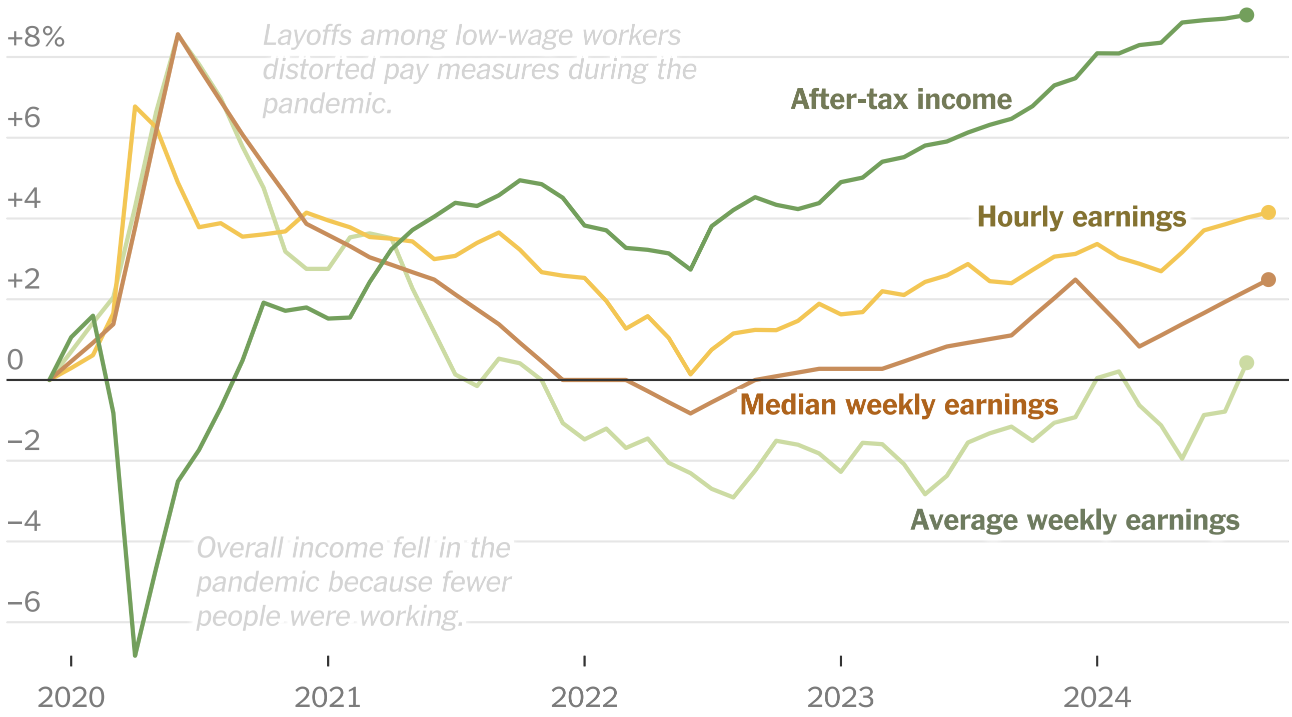
The bottom line: Most American workers are probably making more money today, adjusted for inflation, than they were in 2019. But not all have seen their pay keep up with their own cost of living, and many — perhaps most — are lagging behind where they would be if prepandemic trends had continued unabated. Those complications may help explain why so many Americans believe they have fallen behind.

Different Measures

One reason the pay-versus-prices question is so tricky is that there are so many different ways to try to answer it.

Should pay be measured hourly or weekly? Should it include overtime? Tips? Health insurance or other benefits? How should it account for gig workers and the self-employed? For people who enter the work force or leave it? Should it be calculated before or after tax?

Change since end of 2019 in various earnings measures



Notes: After-tax income is per capita and excludes government transfer payments and is adjusted for inflation by the Personal Consumption Expenditures Price Index. Hourly earnings are for production and nonsupervisory workers and are adjusted for inflation by the CPI-W. Median weekly earnings are for full-time workers and are adjusted for inflation using the CPI-U. Average weekly earnings are for all workers and are also adjusted using the CPI-U. All series are monthly except for median weekly earnings, which are quarterly. • Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Reserve Bank of New York • By The New York Times

The government publishes at least a dozen measures of earnings and income that answer those questions in different ways. Private companies like ADP, the payroll processor, and Indeed, the job search site, release their own statistics. To complicate matters further, there are also two major government indexes of inflation.

The various data sources agree on the broad strokes: Inflation outpaced wage growth for most workers in late 2021 and early 2022. But when inflation cooled, pay began to catch up. By pretty much any measure, wages have been rising faster than inflation for more than two years.

But the sources differ substantially on where workers have ended up after that roller coaster ride. Per-capita after-tax income — a measure that includes not just wages and salaries but also other forms of income, and covers the whole population, not just people who are working — has risen more than 9 percent since the end of 2019 after being adjusted for inflation.

But median weekly earnings — which count only what full-time workers make from their jobs — are up just 2.5 percent over the same period. And a measure from the Federal Reserve Bank of New York, one that includes both full- and part-time workers and uses average pay rather than median, has barely risen at all.

Winners and Losers

One finding where the different data sources agree is that wages have risen fastest for the lowest-paid workers. Inflation-adjusted weekly earnings for the bottom 10 percent of workers in the third quarter this year were up 7.3 percent from the same point in 2019, compared with 3.6 percent for workers at the top.

Change in inflation-adjusted weekly earnings by wage level, 2019-2024

10th percentile	+7.3%
25th percentile	+5.4%
Median	+3.3%
75th percentile	+3.6%
90th percentile	+3.6%

Note: Change is measured in the third quarter of each year, not seasonally adjusted. • Source: Bureau of Labor Statistics • By The New York Times

That faster growth at the bottom was driven to a large degree by the strong job market, particularly for workers in the leisure and hospitality sector. They were able to demand large raises from employers in 2021 and 2022 as the economy began to emerge from the pandemic and restaurants, hotels and other businesses scrambled to find employees to meet the surge in demand.

“Full employment disproportionally lifts the economic fortunes of the most vulnerable,” said Jared Bernstein, chairman of President Biden’s Council of Economic Advisers. “And that’s clear in the data. We’re seeing it.”

Workers in other fields made smaller gains, however, and in some cases lost ground relative to prices. Weekly pay, adjusted for inflation, has fallen since 2019 in advertising, telecommunications, chemical manufacturing and a variety of other industries.

Even in the service sector, gains weren't evenly distributed. Many workers won raises by jumping between jobs, or threatening to do so. Those who couldn't readily change jobs — because of child care obligations, for example, or transportation challenges — didn't experience the same big gains.

Price Gaps

Simply adjusting pay increases for inflation, however, may not tell the whole story when it comes to keeping up with the cost of living.

That's because inflation measures, too, are averages, reflecting how much prices have risen for the goods and services Americans buy. The average family spends about 8 percent of its budget on groceries, for example, so grocery prices make up 8 percent of the Consumer Price Index.

Families with children, though, often spend much more than 8 percent of their budget on food, just as workers with long commutes spend more than average on gas and residents of cold climates spend more to heat their homes. And because prices in those categories have risen particularly quickly in recent years, those households — all else equal — will have experienced a larger increase in their cost of living than the most prominent inflation indexes would suggest.

Different families also experience different price increases even when buying the same or similar items. Alberto Cavallo, a Harvard economist, and a co-author have found that prices in recent years have risen fastest for the cheapest goods in a category — generic eggs, for example, versus cage-free eggs from a well-known brand. Mr. Cavallo estimates that this phenomenon, which he calls "cheapflation," could be enough to reverse, or at least dampen, the faster wage growth experienced by poorer households in recent years.

The differences are particularly stark for the biggest item in most families' monthly budget: housing. Homeowners — at least those who were able to lock in low mortgage rates before interest rates began to rise in early 2022 — have been somewhat insulated from the effects of inflation. (Most of them have also seen a significant increase in the value of their homes.)

Renters, by contrast, have borne the full force of rising prices: Rents are up more than 25 percent since the start of the pandemic, according to the measure used to calculate the Consumer Price Index. And data from ApartmentList shows that rents have risen fastest for lower-priced homes since the start of the pandemic.

Every economic environment has people who thrive and people who struggle, of course. But the big changes in both pay and prices made the differences particularly stark during this period.

"There's just a very big dispersion in what those lived experiences have been," said Greg Kaplan, an economist at the University of Chicago. "It's going to be really bad if you didn't get an increase in wages and you're a renter."

Compared With What?

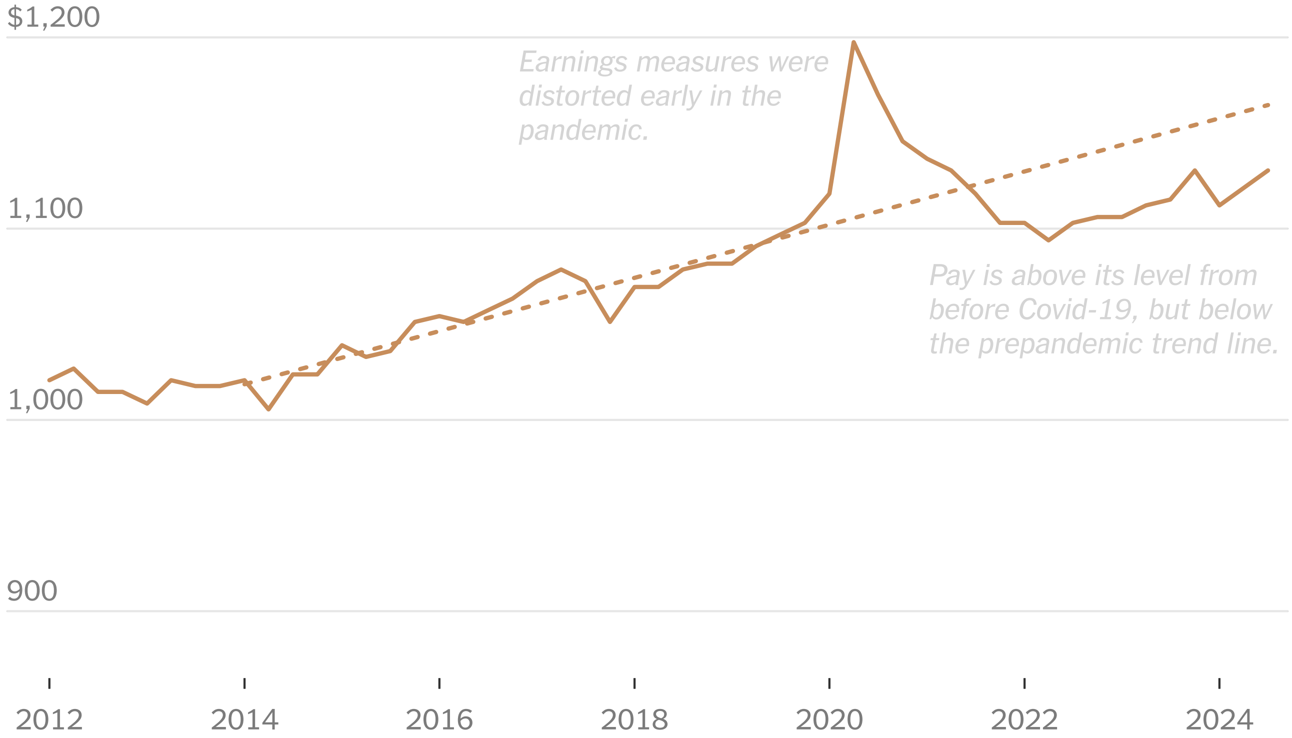
There is another reason many Americans may not think their pay has kept up with inflation: Depending on the point you measure from, it hasn't.

Economists tend to look at the past five years — the pandemic recession and recovery, and the inflation that came with it — as a single episode. When they analyze growth in income, spending, employment or other economic variables, they typically use the period immediately before the pandemic as their benchmark.

But individuals assessing their own situation may choose a different point — the start of President Biden's term in January 2021, for example, or the start of the inflation surge later that year. Wages, adjusted for inflation, are down over those periods by many measures.

Another factor: Workers, especially those in the prime of their careers, typically expect their pay to go up over time. If their pay has just barely kept up with inflation over the past five years, they may feel that they have fallen behind.

Median weekly earnings vs. prepandemic trend



Notes: Earnings are shown in 2023 dollars and are for full-time workers. Data is seasonally adjusted. Trend line is based on 2014 to 2019 data. • Source: Bureau of Labor Statistics • By The New York Times

Weekly wages, adjusted for inflation, were about 3 percent lower in the third quarter of this year than they would have been if pay had kept rising at the rate it was in the six years before the pandemic. Other analyses, using different measures, reach different conclusions — but hardly any of them find that pay, on average, has greatly exceeded its prepandemic trend.

“When I hear smart people talk to me about how people are doing better, I say: What is the trend?” said Erik Hurst, a University of Chicago economist. “Do you think everybody having zero wage growth is the normal trend?”

On the other hand, many economists argue that comparing pay with its prepandemic trend is unreasonable. There was, after all, a pandemic, which caused huge disruptions and put tens of millions of people out of work. Even when inflation is factored in, pay has rebounded much more quickly than after the last recession, a decade and a half ago.

“We had a huge pandemic, and the fact that we’re talking about real earnings growth at all this soon after a pandemic is fantastic news,” said Tara Sinclair, a George Washington University economist who worked in the Treasury Department until earlier this year. “Looking back at our previous track record for how we fight recessions, this feels better.”

Ben Casselman writes about economics with a particular focus on stories involving data. He has covered the economy for nearly 20 years, and his recent work has focused on how trends in labor, politics, technology and demographics have shaped the way we live and work. More about Ben Casselman