2026-9-9

ECO

WSJ Print Edition

image

Economic Data Show Growth, But Consumers Are Still Glum

Market strength, low unemployment fail to lift a sour mood as costs keep rising

BY JUSTIN LAHART

The U.S. added an impressive 162,000 jobs last month. The unemployment rate is low. The stock market and artificial intelligence are making many people rich and boosting retirement savings.

Yet surveys tell us Americans are still in a funk. Their sour mood doesn't match up with what major indicators say about how the U.S. economy is performing.

Note

That might not mean that people are lying to themselves about their experience of the economy. Instead, broad measures might be missing how much Americans' costs have risen since the pandemic, and how many of them haven't kept up.

"People aren't wrong," University of Chicago economist Erik Hurst said.

The University of Michi-

gan's measure of consumer sentiment continues to flirt with the lowest levels in its decadeslong history. In a monthly Gallup survey, 45% of people now rate the economy poor, while a combined 19% rate it as good or excellent. A New York Fed survey has similarly glum readings. The Conference Board's index of consumer confidence is one of the more optimistic readings—and even that is downbeat.

The economy doesn't look like it's booming, but it doesn't look all that bad, either. Gross domestic product grew 2.1% over the past year. Job growth has been decent, and the unemployment rate has remained low. Inflation remains trying— consumer prices were up 3.4% on the year in July—but is much lower than in June 2022, when it hit 9.1%. Note

The disconnect could reflect flaws in the surveys, or in how people are assessing the economy. Some critics think a 2024 move from phone-based to online surveys by Michigan might have distorted its sentiment readings, for example. (Michigan disputes this, noting that it spent years collecting experimental data in preparation for the shift.) A more partisan environment could be polluting people's feelings on the economy. Or people could generally be sadder than they were before the pandemic.

But moods look bleak regardless of the survey, while political independents—who shouldn't be so swayed by partisanship—are down on the economy. Even Republicans rate the economy as much worse than they did during President Trump's first term.

The bigger problem could be that economic data doesn't capture everything that is shaping people's experience of the economy. Inflation is usually looked at by looking at the year-over-year change in prices, but the more salient statistic for many Americans

Note

is that consumer prices are 28% higher than just before the pandemic. Plus inflation measures don't directly cover some things that people experience as costs, such as home prices or interest rates.

Average hourly earnings figures from the Labor Department don't entirely capture what is going on with wages, either. Adjusted for inflation, these are up 2.8% since before the pandemic. But recent research from Hurst with economists Christina Patterson, Nela Richardson and Liv Wang suggests that a lot of people are far short of the mark.

Note

Using data from payroll processor ADP, the economists found that from the end of 2020 to the end of last year, 34% of workers' wages didn't keep up with inflation. (The research, posted as a National Bureau of Economic Research working paper last month, hasn't been peer reviewed.)

Note

Moreover, for those workers whose wages didn't keep up, the effect of rising prices was far more pernicious than it would have been in a low inflation environment, where their buying power would only gradually deteriorate. People whose wages went up very little, or not at all, lost a lot of ground. A bit more than a 10th of workers experienced inflation-adjusted wage losses in excess of 3.5%. Compounded over five years, that is more than 16%.

Circumstances probably haven't improved since the end of last year, as the jump in gasoline prices breathed new life into inflation. In July, consumer prices were up 2.1% from their December level, while average hourly earnings were up 1.7%.

Note

Some people's pay has outstripped inflation handily. But many of them got raises by switching jobs, so those wage gains might not be doing much to dull frustration. Harvard University economist Stefanie Stantcheva has found that people tend to view pay increases not as adjustments their employers are making to keep up with inflation, but instead as due to their efforts at work. This is especially true of those who have switched jobs—and who might feel especially put off if the pay gains they hustled for are later eroded by inflation.

Because inflation measures also don't include all of the costs that households face, many people might feel even further behind than they are on paper.

Note Note Note

Mortgage rates, for example, aren't included in the Labor Department's consumer price calculations, and those rates are substantially higher than before the pandemic. The average rate on a 30-year fixed mortgage reached 6.71% last week, compared with 3.51% in late January 2020 and the highest level in over a year. Home prices also aren't included—the Labor Department calculates housing prices by calculating how much it would cost owners to rent the homes they live in rather than what those homes would cost to buy.

Note

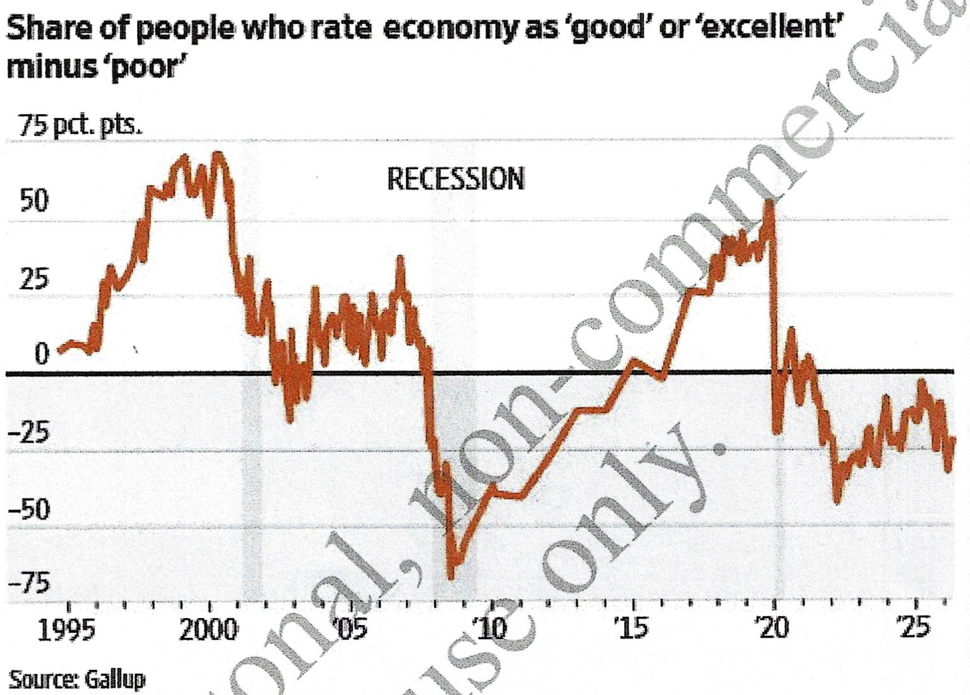
So inflation statistics don't capture how far out of reach owning a home has become for many Americans. Assuming the threshold for an affordable house is for mortgage and other housing payments to be no more than 30% of income, the Atlanta Fed calculates that as of May a household would need income of $124,674 a year to afford a median- priced home—45% more than the median household makes. At the end of 2019, payments on a median-priced home were about 3% below the 30%-of-income threshold.

Note Note

Credit-card interest rates are also higher, as are rates on car loans, points out Judd Cramer, an economics lecturer at Harvard, and those aren't in the consumer price data, either. A measure of consumer prices that took what has gone on with home prices and interest rates into account would be up by over 40% from January 2020 levels, Cramer calculates.

Bearing that in mind, it makes sense to him that surveys show that consumers are in a funk. —Note

"Even if the measures are not as clean as we want them to be, and are certainly influenced by politics and psychology, there's still something there," he said.


Share of people who rate economy as 'good' or 'excellent' minus 'poor'
75 pct. pts.
50
25
0
-25
-50
-75
RECESSION
1995
2000
'05
'10
'15
'20
'25
Source: Gallup