

## WSJ Print Edition

## Divergent American Economy Gets More Divided

BY JEANNE WHALEN

There are two economies in the U.S. right now, and they are moving in different directions. Note

For high earners and many older people in the U.S., the economy looks robust. They are still spending like gangbusters, and their 401(k) accounts and homes have soared in value. They nabbed 3% mortgages when rates were low. Some might worry about AI eventually coming for their jobs, but for now, their positions look relatively secure.

For many others, momentum has stalled or reversed. The big wage growth experienced by low-income workers during the pandemic has petered out.

Those workers are curbing their spending and in some cases are struggling to find jobs. Unemployment for Black Americans and many young people has jumped. Home prices and rents have risen sharply, making housing increasingly unaffordable.

The divided fortunes of rich and poor in the U.S. might sound like an old story. Yet in recent years, workers on the low end of the spectrum began modestly narrowing the gap, as acute labor shortages enabled them to switch jobs and bargain hard for better wages.

Now the gulf is widening again. For much of the past few years, wages for the bottom third of U.S. earners grew at a faster rate than for the top third, Bank of America data show. But since the start

of the year, top earners have pulled far ahead.

“As the unemployment rate has slowly crept up, and job growth has fallen more sharply, wage growth has moderated, but particularly for low-wage workers,” said Arin Dube, an economics professor at the University of Massachusetts, Amherst. “This is disappointing news for those who were hoping the reversal in wage inequality would be a more permanent feature of the American landscape.”

In August, annual wage and salary growth fell to 0.9% for the bottom third, the smallest gain since 2016, the Bank of America data show. The top third saw growth of 3.6% year over year, the most since November 2021. That divergence was echoed in year-over-year spending growth in August, with household spending rising just 0.3% for the low-income group and 2.2% for higher-income households.

The cooling labor market is probably fueling much of that divergence, said David Tinsley, senior economist at the Bank of America Institute. Federal job data and Bank of America’s internal figures suggest that the softening job market is affecting lower-income households more than other groups, Tinsley said. ↑

The booming stock portfolios of higher-income households are probably also playing a role, providing high-earners the confidence to spend more, Tinsley added.

The top 10% of earners—households making about \$250,000 a year or more—account for more of the nation’s total spending than ever, reaching 49.2% in the second quarter, compared with 45.7% a decade ago, according to Moody’s Analytics. ← Note

Wealthy Americans’ spending power is continuing to buoy luxury segments of some industries, including airlines and high-end sneakers. Flights to international destinations and in premium classes are still selling out, while domestic and main-cabin sales have softened across airlines. United Airlines said premium cabin revenue in the most recent quarter increased 5.6% “while the economy cabin was negative.” ①

For Camelia Kuhnen, a finance professor at the University of North Carolina at Chapel Hill, much of today's divide relates to homeownership. Older and more prosperous households that owned homes before the pandemic are sitting on real estate that is now 50% more valuable, she said, citing the S&P CoreLogic Case-Shiller National Home Price Index.

"I think the U.S. population is split into these two types—the lucky ones, the asset owners, and the unlucky ones," Kuhnen said. The latter "are now stuck because there's no way they can come up with that down payment to buy a home."

The median age of firsttime home buyers increased to 38 last year from 35 in 2023, a record, according to the National Association of Realtors.

At the same time, a booming stock market and robust economies in tech and finance are generating expansive wealth and minting new millionaires and billionaires. The divide is creating parallel realities of American life.

The split screen is on view in the Chicago area, where wealthy residents this year have bought more homes at or above \$4 million than they did in all of 2024, according to an annual tally by Crain's Chicago Business. Much of the action is on the North Shore, a wealthy suburban enclave stretching along Lake Michigan.

"We thought Covid was crazy, this is Covid times 10—it just continues to take off," said Jena Radnay, a real-estate agent in the area who recently sold a \$31 million French Revival mansion with a private beach. "When [buyers] look at their portfolio, I think they feel more confident they can take more risk. If you see your portfolio going up 25%, you are feeling better about making that purchase."

Alfred Baah, a Chicago cabdriver who immigrated from Ghana two decades ago, shows the other side of the coin. He rents an apartment with his wife and two children on the city's north side. The 40-yearold would like to buy a home, but prices are too high, and he hasn't been able to save money lately.

His income has dropped significantly this year amid a slowdown in his customer traffic.

When the economy recovered after Covid, Baah could usually count on picking up a ride at the airport without a long wait, he said. In recent months he has been waiting longer—often more than an hour.

In a good year he might make \$80,000, but this year he is on track to earn about half that, he said. Meanwhile his grocery bill and other expenses have ballooned.

"Whatever I make is just to pay the bills, and that's it. I can't save any this year," Baah said.

Young people are experiencing a particular fall in fortune. While the overall unemployment rate rose to 4.3% in August, the rate is much higher for recent college graduates—6.5% over the 12 months ending in August. That is about the highest level in a decade, excluding the pandemic unemployment spike.

That rate, based on data from the Labor Department, applies to people ages 20 to 24 looking for work who have at least a bachelor's degree. Economists say AI is to blame in some cases, because tools such as ChatGPT can now automate work previously done by relatively inexperienced workers.

Bleak employment prospects have helped tank young Americans' views on the economy, to levels hardly seen since a prominent monthly survey began in the 1970s.

Typically, young Americans ages 18 to 34 are the most optimistic about the future of the economy in the University of Michigan's monthly survey of consumer sentiment. But since the start of the year, they are expressing more pessimism than people 55 and older.

"This is extremely rare," said Kuhnen, the UNC professor. "They don't have a home, they don't have a large investment in their 401(k) and they are the most concerned about losing their job should we hit a downturn."

Not all data points to bleak times for groups who tend to earn lower incomes.

Hispanic unemployment in August, at 5.3%, was a little lower than a year ago, though it ticked up from July levels.

The trends are more worrying for Black workers, whose unemployment leapt to 7.5% in August, from 6.1% a year earlier.

Historically, Black workers have been more likely to hold low-skill and junior-level jobs than their white counterparts, making them more vulnerable to layoffs. They have long faced discrimination in the labor market that can become more pronounced when overall hiring slows.

Federal job cuts may also be playing a role in a recent increase in unemployment among Black college graduates. The federal workforce has a disproportionate share of Black workers.

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