2026-2-24

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WSJ Print Edition

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Lower-Income Workers See Boost in Earnings Growth

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Not

Working-class Americans have experienced a paycheck bump in recent months after tax breaks and some signs of faster earnings growth, certain data suggest, a welcome development for households that have been struggling with inflation and stagnant wages.

An improvement in the finances of working people at the lower end of the economic scale might help explain why their spending on both essentials and discretionary items has accelerated, some economists said.

Federal data this week showed an acceleration in weekly earnings growth for low- and middle-income fulltime workers during the second quarter, compared with a year earlier. Weekly pay rose 5.5% for workers at the 25th percentile of earnings and 4.6% for workers at the median, according to Labor Department data. That outpaced growth of 1.5% or less for higher-earning brackets. And it outpaced inflation, too: Consumer prices rose 3.9% over the same period.

To be sure, not all data point to an improvement for the working class. And any relief could be short-lived as crude oil and gas prices climb, tariffs return and artificial intelligence adds inflation pres-sures. Lower-income Ameri --cans who would most benefit from fatter paychecks are also those most sensitive to price increases.

Working-class Americans have felt particularly squeezed in recent years as inflation and cooling wage gains pinched their pocketbooks. Many have also missed out on the big gains in housing values and stock-market portfolios enjoyed by wealthier households. The widening gap between their fortunes and those of higher-income Americans amounted to a two-speed economy.

Atsi Sheth, an economist and chief credit officer at Moody's Ratings, called the recent data a "nice bump" for the lower income groups.

Data from the Bank of America Institute show that the after-tax wage growth for lower-income households accelerated in June to the fastest pace since July 2023. The Bank of America data show wages for the bottom third of earners grew by 4.1% in June from a year earlier, surpassing wage growth of middle-income households for the first time since 2024 and nearly matching the wage growth of the highest-income households.

The bank's data also show that spending by lower-income households picked up in June compared with a year ago—not just on necessities but on discretionary items, too. The bank's income groups fluctuate month to month depending on the mix of deposi--tors and other factors, but they align closely with U.S. Census figures that put middle income between $60,000 and $130,000 a year.

One possible reason behind the shift: Lower- and middleincome households might have boosted their take-home pay by reducing their tax withholdings to reflect tax relief offered by Republican legislation, Bank of America Institute said in a report. "If this is the case, the impact on after-tax wage growth could last for a year," the report said.

Liz Everett Krisberg, head of the Bank of America Institute, said the growth could also reflect a pickup in workers switching jobs and receiving higher wages as a result.

PNC Bank data also show that lower-income household spending, excluding gasoline, has accelerated this year, narrowing the gap with higherincome spending growth to the slimmest margin since 2021.

A different measure of pay doesn't show a marked rise for the working class. The Atlanta Fed's Wage Growth Tracker, which is based on detailed data underlying the Labor Department's monthly jobs report using a different methodology, shows that median wage growth for workers in the bottom half of earners was 3.8% over the 12 months ended in June. That was slightly below the 3.9% bump the top half of earners received. (The data aren't adjusted for inflation.)
