

Rich are spending; those with less aren't

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Volunteers fill orders at Pilsen Food Pantry in Chicago on Oct. 8. Data shows a resilient economy, but that largely reflects spending by the rich, while others pull back amid high prices and weakening labor market. AKILAH TOWNSEND — THE NEW YORK TIMES

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CHICAGO>> By the time the Pilsen Food Pantry opened on a recent morning, Ulysses Moreno had been there for two hours — with a line of people behind him that snaked around the corner.

“This is a lifeline for me,” said Moreno, 39. He had lost his construction job a few days earlier, and with three teenagers at home, he wanted to make sure he could stock up. “Our food budget doesn’t stretch as far as it used to.” *Note*

A few miles away, on Chicago’s Magnificent Mile, luxury hotels are bustling. Jewelry stores and designer boutiques do brisk business. The restaurants are packed with diners sipping \$20 cocktails while they wait for tables.

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To Evelyn Figueroa, a family physician who founded and runs the Pilsen pantry, the dichotomy is striking.

"For people like me, who are homeowners, who are employed, the economy is great," she said. "How is the economy? It depends who you're looking at."

The divide between rich and poor is hardly new, in Chicago or the rest of the country. But it has become more pronounced in recent months. Wealthier Americans, buoyed by a stock market that keeps setting records, have continued to spend freely. Lower-income households — stung by persistent inflation and navigating a labor market that is losing momentum — are pulling back.

The top 10% of U.S. households now account for nearly half of all spending, Moody's Analytics recently estimated, the highest share since the late 1980s. Consumer sentiment has risen among high earners but steadily fallen for other groups.

"This isn't just an inequality story — it's a macroeconomic story," said Lindsay Owens, executive director of the Groundwork Collaborative, a progressive policy group. "As the wealthy continue to consume, that's masking more and more insecurity and instability in the economy under the hood."

Even executives at companies that project mass-market appeal are seeing the trend — and in some cases worrying about its implications.

"Visits across the industry by low-income consumers once again declined by double digits versus the prior year period," Christopher J. Kempczinski, the CEO of McDonald's, said on an earnings call. "This bifurcated consumer base is why we remain cautious about the overall near-term health of the U.S. consumer."

Reversal of fortune

Inequality narrowed by many measures during the pandemic, when trillions of dollars in government aid flowed to households and businesses, and many companies provided extra pay to employees who could not work from home. When the economy began to reopen, intense competition for workers led to rapid wage growth, particularly in low-paying sectors where demand for labor far outstripped supply.

But as the labor market has cooled, low-wage workers have lost much of that leverage. Hourly wages are rising most slowly for the lowest-paid workers, reversing the pandemic trend, according to data from the Federal Reserve Bank of Atlanta.

Slower wage growth, combined with persistent inflation, is straining many families' finances. Americans are increasingly relying on credit cards and other types of borrowing to pay their bills, and more are falling behind on car loans and credit card payments.

Those strains have not resulted in widespread defaults, bankruptcies or foreclosures. But high debt balances mean that even people who are keeping up with payments have little room to borrow more if their costs rise or their incomes fall. And data on spending from Numerator, a consumer research firm, shows that lower-income households have cut back on discretionary purchases, leaving them little buffer.

"People are still consuming the basics, but they're cutting back on all this extra stuff they were able to do coming out of the pandemic," said Leo Feler, chief economist at Numerator. "It's just more precarious because if we've already trimmed all the fat, the only thing left to trim are the essentials."

Pressure on lower-income families was building long before President Donald Trump returned to office. But some of the administration's policies have worsened the challenges, particularly in certain communities.

Farmers have been hard hit by Trump's trade war with China. Cuts to the federal workforce have taken a toll in Northern Virginia and other parts of the country that depend heavily on government employment — effects aggravated by the government shutdown. And immigration raids are weighing on industries that rely on foreign-born workers and on the businesses that count them as customers.

Sources of fragility

The hardship has been largely hidden in the macroeconomic data, however. Consumer spending continues to outpace inflation. Household debt levels have risen but are manageable relative to Americans' incomes. Broad measures like gross domestic

GDP

(2)

product point to an economy that has slowed but remains fundamentally healthy, surprising many forecasters.

But that resilience increasingly rests on a relative handful of well-off households. Economists at the Federal Reserve Bank of Boston recently found that growth in consumer spending since 2022 "has been propelled by the highest-income consumers." ^{Note}

"By contrast," the researchers noted, "spending growth for low-income consumers has been much weaker." ^{Note}

The divergence creates two sources of fragility, warned Dhiren Patki, an author of the Boston Fed study. With so much riding on high earners, the economy could suffer if stock prices fall or some other shock leads them to pare their spending. And lower-income households are already stressed financially, leaving them vulnerable if the labor market weakens further.

The unemployment rate has inched up recently but remained relatively low at 4.3% in August — the most recent data available because the federal government shutdown delayed the release of September figures. Hiring has slowed drastically in recent months, but companies are mostly holding on to workers.

If companies begin making widespread cuts, the consumer picture could darken quickly, warned Michelle Meyer, chief economist at Mastercard.

"If we actually see an increase in firing rates, if you see an increase in the unemployment rate, if you see wages really start to slow in a meaningful way, then I think that even if household balance sheets are still supported, the story line changes very rapidly," she said.

For people who are out of work, finding a job has already gotten much harder. Nearly 2 million Americans are considered long-term unemployed, the highest since the pandemic. And joblessness has risen sharply for Black workers, recent graduates and other groups that are often the first to feel the effects of a weakening labor market. ^{Note}

This month, dozens of job seekers packed into a nondescript conference room in the Pilsen neighborhood for a career fair hosted by the National Able Network, a workforce development nonprofit based in Chicago.

When Joycelyn Saunders lost her job at a financial services firm in December 2023, she expected to find a new role relatively quickly. She had a bachelor's degree and years of experience, and had never been jobless for long.

Nearly two years later, Saunders, 40, showed up to the career fair still looking for a job. She has earned certifications in data analysis, which had seemed like a growth area, but companies are cutting jobs — and those that are hiring are looking for people with experience in that field. She is driving for Uber while applying for jobs — and buying little but gas for her car and food.

"I am just making ends meet, and that's it," she said. "I'm not able to save. I'm not able to pay down things on my credit." ^{Note}

But what about data showing the economy is still good? That might be true for the people she drops off at downtown hotels, Saunders said, but not for the people struggling to pay their bills.

"Good for who?" she said. "Listen to the people and what they are saying about what's happening right now. Even middle-class families are suffering."

