MARKET ANALYSIS

Real Wages are Growing - Why is Consumer Confidence so Low?

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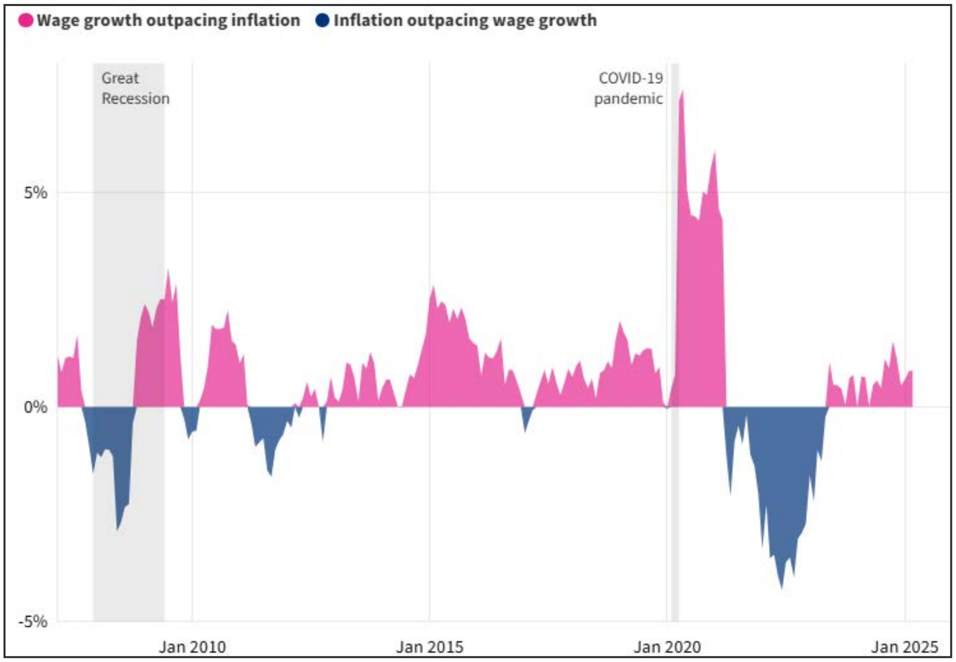
Despite strong underlying economic data and wage growth exceeding the rate of inflation for an extended period now, consumer confidence remains near all-time lows. High borrowing costs, a tightening labor market, and the permanent impacts of inflation resetting prices higher define the disconnect between Wall Street optimism and Main Street sentiment.

The Wake of the Pandemic

The U.S. economy experienced its steepest decline in economic production since the Great Depression in the second quarter of 2020. 22 million jobs were lost and Gross Domestic Product (GDP) dropped by 28.1%.[1] This historic contraction followed government-mandated lockdowns, widespread business closures, and a sharp decline in consumer activity. Despite this severe downturn, the economy rebounded at an impressive pace and largely exceeded expectations from 2021 through 2024. Economic growth, total employment, and productivity all rose and surpassed their pre-pandemic levels. Employment for individuals aged 24-54 (prime-age workers) reached 69.5%, surpassing the 69.0% seen in 2019[1]. This implies a highly active workforce. In tandem with the rebound in economic growth came a surge in the Consumer Price Index (CPI), a broad gauge of inflation, which peaked at 9.1% in June of 2022. Although this inflationary spike was short-lived relative to other historical inflationary periods for the U.S., it marked the highest rate of price increases in over 40 years.[2]

Wage Growth Vs. Inflation

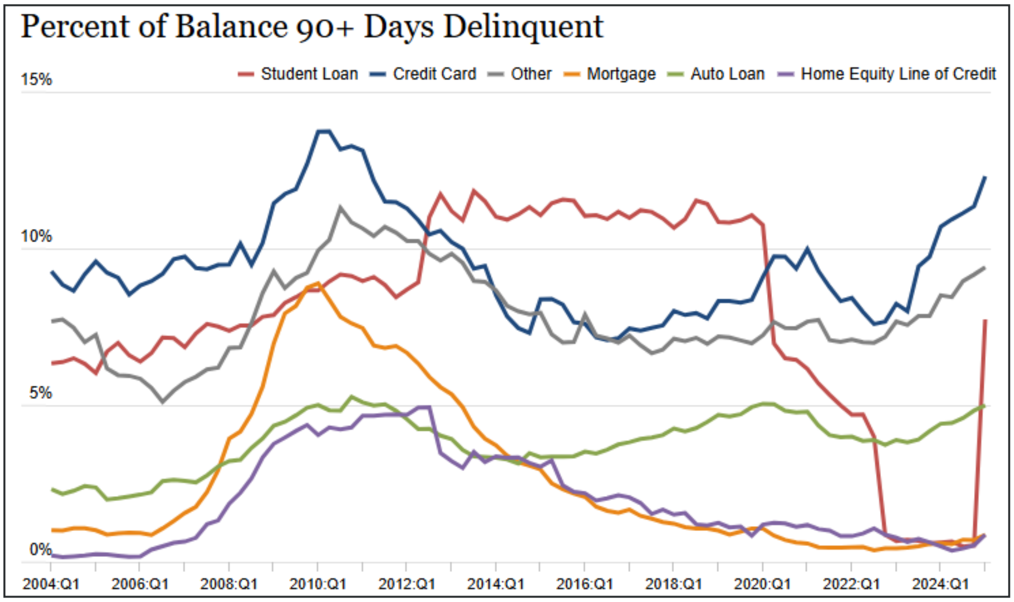


As inflation rapidly accelerated in 2021, it began to outpace the rate of wage growth, creating an environment where consumers' expenses rose faster than their incomes. This continued for 26 consecutive months, which disenfranchised many Americans, particularly lower-income workers. However, by June 2023, wage growth overtook the rate of inflation, and has not looked back since, registering 23 consecutive months of wage growth in excess of the rate of inflation – a trend more reflective of the norm over the prior decade (Chart 1).[3] In the last 25 years, consumer prices increased a total of 78.06%[4], while the average income improved by 80.74%.[5] Simply put, consumers now have more purchasing power than they did at the turn of the 21st century, despite challenges emerging from the pandemic.

These gains have been supported by rising labor productivity, a measure of how effectively and efficiently each worker can produce goods or services. Output per hour rose from 71.2 in 2000 to 115.725 in 2025, with a significant increase occurring during the pandemic, as businesses were compelled to adopt technology that ultimately led to productivity gains.[6] As labor productivity increases, businesses can afford to offer higher wages without raising prices because they can create more goods or services with the same number of workers. This is an important component of a stable economy and steadily growing wages.

Why is Consumer Confidence Still So Low?

A common misconception of inflation moderation is that price levels will return to prior levels. In reality, even as inflation slows, prices continue to rise, just at a slower pace. Moderating inflation is akin to stepping on the brakes in a car travelling at a high speed: the car may slow down, but it is still moving forward. Similarly, price increases may slow, i.e., the rate of inflation declines, but prices themselves still move higher. Consumers are unlikely to see pre-pandemic prices again, and it takes time to adjust to the "sticker shock" of permanently higher costs.



To combat elevated inflation, the Federal Reserve (Fed) raises interest rates to rein in economic growth and rising prices. As a result, interest rates on items such as mortgages, student loans, and credit cards all increase. This leads to higher prices that are not reflected in government reports, such as CPI. For example, mortgage payments for a median-priced home rose from $1,083 in 2020 to $2,111 by December 2024.[7] As Americans, particularly those in lower income quartiles, increase their total debt to purchase homes, cars, or other items on credit, rising interest rates affect Main Street's perception of the economy. Total household debt increased by $167 billion to $18.20 trillion in the first quarter of 2025. Furthermore, delinquency rates, or the amount of past-due debt as a percentage of total debt, for credit cards and auto loans have risen since the fourth quarter of 2019 (Chart 2).[8] These higher borrowing costs are not completely reflected in official inflation metrics. For consumers, the disconnect between the reported data and their financial reality can foster a sense of frustration.

Despite overall stable job growth, concerns about the difficulty of finding a new job have led to a decline in consumer confidence. The overall unemployment rate remains at 4.2%, which is higher than the post-pandemic low of 3.4% but below the long-term average of 5.7%. Meanwhile, the number of open jobs has begun to shrink, as employers either fill open positions or remove them from employment listings. Coming out of the pandemic, as companies were eager to hire more workers, there were more available jobs than unemployed people. But the number of job openings has now fallen back to parity with roughly one job per unemployed person.[9]

Should Consumer Confidence be Higher?

Sustained real wage growth is likely to be a driver of higher consumer confidence in the coming months and years. As wages continue to rise and inflation moderates, consumer purchasing power will increase, ultimately making a meaningful difference for disposable income and household balance sheets. Additionally, as inflation cools, the Fed will be more inclined to cut interest rates, potentially by as much as 0.5% by Q4 of this year, according to futures markets.[10] Lower rates would ease borrowing costs and likely boost consumer confidence. Although concerns about job security remain, underlying economic fundamentals do not indicate the kind of economic weakness that would lead to widespread job losses. Despite the current disconnect between Main Street and Wall Street, continued strength in the labor market and consistent wage growth should eventually filter through and improve consumer sentiment.

Economic Definitions

Unemployment Rate: The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

Job Openings – JOLTS: This concept tracks the number of specific job openings in an economy. Job vacancies generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions.

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

Conference Board Consumer Confidence Index: The Consumer Confidence Survey® reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectation for inflation, stock prices and interest rates. Data are data available by age, income, region and top 8 states.

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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[1] United States GDP Growth Rate
[2] Historical U.S. Inflation Rate by Year: 1929 to 2025
[3] Are wages keeping up with inflation? | USAFacts
[4] Data Obtained From Bloomberg as of 5/31/2025
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[7] Why Consumers Are So Glum About An Economy Where Inflation is Down and Jobs Are Plentiful
[8] https://www.newyorkfed.org/microeconomics/hhdc
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[10] CME FedWatch - CME Group