PAYROLL

Over the Last Few Months, Wages Are Rising Faster Than Inflation

Pay is beginning to catch up in the race, and since May, has been rising faster than inflation after losing ground for more than two years.

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By Sarah Foster – Bankrate.com (via TNS).

Glenn Stellwag is making more money than ever between his two jobs and side hustles. Even then, he feels like he's barely scraping by most months thanks to inflation.

After a back injury cost him his job at a sawmill six years ago, Stellwag, 41, has worked at a local hardware store near his Michigan home, where he stocks shelves, rings up merchandise and assists customers four days a week from 9 a.m. to about 6 p.m. But last October, Stellwag found a second job with a tow truck company, work he picked up when he felt he "couldn't afford to live anymore." He's on call six days a week from 7 p.m. to 7 a.m. The way his schedules line up, he doesn't have a single night off from work.

He's since added other gigs repairing lawn mowers and small engines. His total monthly income rounds out to anywhere between $2,500 and $3,000 a month, all of which goes toward his groceries, mortgage, truck payment, car payment, insurance and utilities. Even his hobby — mud bogging — has grown too expensive. Untouched and spotless, his truck sits in his backyard, waiting for the economy to turn around.

Workers all across America are feeling the same double-edged sword as Stellwag. After cratering during the pandemic, the job market roared back, becoming the hottest in a lifetime and bestowing workers with even better bargaining power, job opportunities and raises than before.

But it failed to be fully felt. Parallel with supply shocks and pandemic-related disruptions, inflation also burst as the economy fired off on all cylinders, eating away at many workers' gains. When the gap between wage growth and inflation was at its widest in the third quarter of 2022, prices had jumped 12.8 percent since the start of 2021, while wages had climbed a smaller 9.1 percent, a 3.7-point gap, a Bankrate analysis of inflation and wage growth data shows.

Pay is beginning to catch up in the race, and since May, has been rising faster than inflation after losing ground for more than two years. As of the second quarter of 2023, prices are up 15.8 percent since the beginning of 2021, while wages have climbed 12.8 percent, based on the latest Bureau of Labor Statistics data. The trend is a win for workers — a feature of a job market that's been surprisingly resilient as inflation slows and interest rates rise.

Nonetheless, a gap between household buying power and inflation remains. At its current pace, workers' wages aren't set to recover their loss of total purchasing power until at some point in the fourth quarter of 2024, according to Bankrate's new Inflation To Wage Index.

The continued recovery has major implications for Americans' personal finances, with many saving less for emergencies or retirement and taking on more credit card debt to handle inflation.

Can wage growth catch up to inflation?

Whether these projections come to fruition depends on the U.S. economy continuing to hold up — a possibility that economists are growing more optimistic about, even if it remains less than probable. If a recession begins, inflation and wage growth could both take a much sharper nosedive, putting Americans' wallets at risk of catching up much more slowly, if at all.

Making or breaking that possibility are the Fed's interest rate decisions. Officials say they can be more patient about lifting rates, and they may even keep rates steady when they meet later this month. Yet, their projections from June show at least one more increase is currently on the table. Higher interest rates slow economic growth, and a major risk is the Fed doing too much.

Even if officials don't lift borrowing costs anymore, they're also nowhere near ready to declare victory and start cutting rates. A separate gauge of inflation excluding food and energy is up 4.7 percent, more than two times higher than the Fed's official 2 percent goal. The longer the Fed keeps rates high, the more it slows the economy.

Cooling wage growth may also be necessary to get inflation in check — a process that often requires a slowing job market, affording workers fewer new opportunities and less bargaining power. Fed Chair Jerome Powell has said higher pay wasn't the primary cause of inflation, but he's also reiterated that pay is running hotter than a level that's consistent with the Fed's objective.

"Wages are the bridge between the labor market and inflation," says Nela Richardson, chief economist at ADP, a payroll data company. "Wages never drove up inflation, but it might keep inflation higher for longer."

For many Americans, a stronger job market may not be worth the trade off of hotter inflation, especially if their skills, lives and careers don't grant them as much advancement.

"For those who are able to obtain employment with higher or rising wages, they should fare well, at least in the near-term," Hamrick says. But "while the economy and job market are quite dynamic, not everyone possesses the skills or opportunities to enjoy upward mobility."

'It does me no good'

It's Americans like Stellwag who Powell says officials are keeping in mind as they squeeze the U.S. economy with the hardest force in four decades, even if it risks a recession. Not all households experience inflation the same, and those living paycheck to paycheck have less wherewithal to absorb higher prices in their budgets.

"We understand that our actions affect communities, families and businesses across the country," Powell has said at every press conference since January 2022. "Everything we do at the Fed is in service to our public mission."

Stellwag has yet to notice falling inflation. Even his job at the hardware store gives him a front-row seat. Before the pandemic, he used to update prices on inventory "once or a twice a year," he estimates. Even today, he's still updating some prices every week. He's noticed that PVC pipes are beginning to come down — but in "cents when they went up dollars," he says.

About a year ago, a business next door started advertising a $15 starting wage. Two days later, his boss bumped his pay to the same hourly rate.

"Every time my wage goes up, the price of everything else goes up, and it does me no good," Stellwag says. "With my physical condition, there's not a whole lot more I can do to make more money. I'm stuck at a counter job or desk job. … I'm just overwhelmed and optimistic, hoping things are going to level out and get better."

Some sectors fare better than others

Wages and inflation depend on a person's location and industry. Workers in some fields may find that their pay is holding up better than others — likely tied to labor demand coming out of the pandemic.

Bankrate's analysis found that wages for workers in retail, leisure and hospitality, as well as food services and accommodation, never lost ground to inflation, with their wages up 16 percent, 18.9 percent and 19.6 percent since the beginning of 2021 compared to inflation's 15.8 percent burst, respectively.

Of the industries that have fallen behind, health care and social assistance is keeping up better than any. Up 13.9 percent since the start of 2021, that sector's pay may fully recover from the total loss of purchasing power quicker than the average worker, based on Bankrate's Wage To Inflation Index.

Professional and business services pay is up 12.8 percent over the same period, matching wages overall.

Other industries have an even greater pay-to-inflation gap. Manufacturing wages are up a smaller 11.7 percent since the beginning of 2021, while construction pay has risen 11 percent and financial activities pay is up a smaller 10.2 percent. Wages for workers in both public- and private-sector education have risen just 8.6 percent over the period, 7.2 percentage points below the overall rate of inflation.

Pandemic's effect on wages vs. inflation

Despite who's missed or gained ground, the average worker may be worse off than they would've been had the post-pandemic inflation burst not occurred. Julia Pollak, chief economist at job posting site ZipRecruiter, says wages grew about 1.4-1.5 percent more than inflation each year between 2013 and 2019. If that trajectory had continued, wages would have climbed 11.5 percent since February 2020, while prices would've increased exactly 7 percent, reflecting a 4.5 percent inflation-adjusted gain.

Meanwhile, Americans who have kept up with inflation may still feel like higher prices are more salient, she adds.

"It feels unfair; it feels like you lost control of your budget," Pollak says. "A loss has a bigger effect on people than an equivalent gain."

Even so, experts say Americans will likely feel better before their wages fully recover. Americans' confidence in the economy in July hit the highest since October 2021 and has been on the rise since pay first began eclipsing price pressures in May, according to the University of Michigan's Survey of Consumers.

That bodes well for consumer spending, especially if Americans are employed and getting a consistent paycheck, according to Jordan Jackson, global market strategist and vice president of J.P. Morgan Asset Management.

Jackson expects that some labor shortages will still remain in a slowing economy, continuing to underpin wage growth. Pay catching up to inflation is also a "real possibility," even if a recession happens, he says. His peak unemployment estimate is between 4.5-5.5 percent — reflecting the lowest joblessness rate of any modern downturn.

"For the American consumer, a penny earned is a penny spent," Jackson says. As long as Americans are "seeing prices still moving higher but moving higher to a lesser degree than the increase that they're seeing in their wages, you keep the consumer afloat."

Inflation still scorching your wallet? Here are 6 expert-backed strategies to recover

1. Measure how your pay has held up to inflation

Your game plan to handle inflation first requires knowing how much ground you've lost.

Compare your income now to what it was in 2021. Then, calculate how much your income has changed, whether it's grown, stayed the same or fallen. If that number is smaller than the overall 15.8 percent inflation rate, then on paper, you could've technically taken a pay cut — but every individual has their own personal inflation rate depending on what they buy.

After you know your income, take a look at your budget and find your biggest spending categories each month. Most of the time, those are essentials — like gasoline, groceries and rent. Then, go to the Department of Labor's consumer price index (CPI) and find the inflation rates for those categories. If you're buying some of today's most inflated items, you may have an even higher inflation rate.

For example, someone who locked in a new lease at some point in the past year may have a higher inflation rate than a homeowner who refinanced when mortgage rates were at a record low in 2021.

If you haven't gotten a raise or if your pay hasn't kept up with rising prices, you're not alone. More than half (55 percent) of workers who either got a raise or a higher-paying job between August 2021 and 2022 say that pay gain didn't match inflation, according to a previous Bankrate poll.

2. Consider "lifestyle inflation" or "lifestyle creep," too

Another way to tell whether prices are going up for you over time: Compare your spending year-over-year in each category, a task that's even easier once you know the biggest line items in your budget.

Any factor that causes you to spend more over time is something worth keeping an eye on — and inflation isn't always the contributor.

If your commute to work changed, for example, you may naturally end up buying more gasoline. Your budget, meanwhile, can also evolve as your income changes. The majority of Americans (72 percent) say they'd boost some aspect of non-essential spending — like updating their home or taking a vacation — if they were to receive a raise in the future, according to a Bankrate poll published in July.

"Our spending changes, our interests and needs change, and that's often a little bit of lifestyle creep on top of inflation," says Eryn Schultz, financial educator and founder of Her Personal Finance. "The big thing is having a habit where you know what you're spending every month, and you know what your top five spending items are."

3. Free up cash by negotiating your bills or cutting on nonessential expenses

If you're ever feeling cash-strapped, cut back on those non-essential, discretionary purchases first, from streaming services to meals out. Americans can also find success negotiating their recurring expenses with their utility providers, Schultz says. Cable companies may give discounts to customers who are about to cut the cord; your cell phone service provider may have a new plan you can switch to. Even if you're about to renew your lease on your apartment, you might be able to haggle with your landlord.

4. Find ways to keep boosting your income, especially by investing in yourself

Making more money is often the secret to handling inflation, but boosting your income may be easier than you think. Keep improving your employability, whether that's by networking with individuals in your industry or learning a new skill — the latter of which doesn't always require a costly four-year degree. Check with organizations in your local area to see if they're offering upskilling courses or training in a trade at a more affordable price.

You could even monetize a hobby you already enjoy, helping to pad up your wallet. Like Stellwag, nearly 2 in 5 (or 39 percent) of adults have a side hustle, a Bankrate survey published in May found, while 44 percent believe they'll always need one.

5. Leave less cash on the sidelines and make the right money moves

Even when inflation cools, your money won't be safe if you're making the wrong money moves.

A high-yield savings account is the best option for your emergency fund. No matter how much money you can afford to stash away in it — whether it's $100, $1,000 or $10,000 — your balance will grow even faster, helping you grow the cash you'd use to cover an unexpected expense much more quickly.

If you deposited $1,000 in an online bank paying a 5 percent annual percentage yield (APR), you'd earn $50 in your first year, versus $5.40 at the average bank (paying a 0.54 percent APR) and one cent at big banks like Chase or Bank of America.

For higher-income Americans, keeping too much cash on the sidelines might risk leaving even more money on the table. After you've first saved at least six months of expenses, prioritize saving for longer-term goals through investing — often the best way to beat inflation over time.

6. If you're trying to get back on track after the latest inflation surge, focus on one financial goal at a time

As higher prices pinch Americans' budgets, many may feel like their financial goals are on hold, whether that's paying off credit card debt or saving for retirement and emergencies. Almost half (48 percent) of Americans have less than three months' worth of emergency savings, according to a Bankrate survey published in June.

Economists do see inflation improving, falling to 2 percent by the end of 2024 or end of 2025, according to Bankrate's second-quarter Economic Indicator poll. But when that time comes, or when you feel like you can at least come up for air, it may do more harm than good to focus on crushing multiple financial goals at once.

Instead, separate your goals into a hierarchy, channeling the bulk of your time, cash and energy toward the most important task — and contributing a little bit here and there toward your other goals.

Eliminating your credit card debt should likely be your first priority. You can save hundreds, if not thousands, of dollars in interest by transferring your debt for a fee to a card with a 0 percent introductory APR. Those offers currently last between 15-21 months, and once that window is over, your interest rate will surge again.

“If you try to do everything at once, if you don’t make a lot of progress, it gets frustrating,” Schultz says. “It can really change our attitude to, ‘I’m bad with money. I can’t do this.’ But once you’ve achieved that goal, all that money can go toward whatever objective number two is.”

Methodology

Bankrate indexed the Department of Labor’s headline consumer price index (CPI) and employment cost index (ECI) measure for wages and salaries to January 1, 2021. To determine the pace at which inflation and wage growth have been slowing, and to chart out future inflation & wage figures assuming the same pace, Bankrate performed polynomial regression analyses using data from Q1 2021 to Q2 2023 to find the respective best fit lines. All figures from ECI reflect employers’ wages and salary costs for private-industry workers, except for education, which includes wages for both public and private-sector employees. Bankrate’s projections are not predictions for the U.S. economy or real-world trends and should only be used for insight through the fourth quarter of 2024.

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