WELLS FARGO

Special Commentary — January 17, 2025

Fears for Tiers: Consumer Health by Income Group

Summary

There is no doubt the current expansion owes much to the staying power of the consumer. Yet for businesses and policymakers alike, a more nuanced understanding of consumer health, particularly at lower-income levels, will be vital in 2025. This report looks beyond the *aggregate* conditions in an effort to better understand the unique experiences of consumers at different tiers of income.

Economist(s)

Tim Quinlan
Senior Economist | Wells Fargo Economics
Tim.Quinlan@wellsfargo.com | 704-410-3283

Sarah House
Senior Economist | Wells Fargo Economics
Sarah.House@wellsfargo.com | 704-410-3282

Shannon Grein
Economist | Wells Fargo Economics
shannon.grein@wellsfargo.com | 704-410-0369

Jeremiah Kohl
Economic Analyst | Wells Fargo Economics
Jeremiah.J.Kohl@wellsfargo.com | 212-214-1164

Aubrey Woessner
Economic Analyst | Wells Fargo Economics
Aubrey.B.Woessner@wellsfargo.com | 704-410-2911

There's a Room Where the Light Won't Find You

Economic indicators and statistics tend to be indicative of *aggregate* conditions even as the unique experiences at different tiers of income can get overlooked. In this report, we unpack what limited data are available to better understand the varying economic experience at different levels of consumer income. What emerges from our analysis is evidence that lower-income households are struggling even as aggregate measures suggest more robust consumer health.

Earnings of workers in less-well-paid industries have trailed behind those in better-paying work. Households at the lower end of the income distribution are also facing a stiffer inflation environment today, that may only become more challenging in the wake of tariffs. Meanwhile, the so-called *resilience* of the consumer in this cycle owes much to the fact that households are burning the candle at both ends. Credit reliance is up and saving rates are down. What appears as stout spending today comes at the cost of more vulnerable finances for the working poor.

The disheartening truth is that upper-income consumer segments can largely offset the struggles at the lower end. Spending of higher-income households is less deterred by slower wage gains, inflation and still-elevated interest rates. That should allow overall consumer spending to still run above 2% this year and signal 'business as usual' when it is anything but usual for a large segment of the population.

This not only presents a challenge for those struggling to make ends meet, but it creates a particular problem for businesses that cater to lower-earning individuals. It may also have an under-appreciated sway on policymakers at the Federal Reserve as they weigh the benefits of wringing out the last bit of inflation with the cost of further cooling in the jobs market.

All estimates/forecasts are as of 1/17/2025 unless otherwise stated. 1/17/2025 9:00:00 EST. **This report is available on Bloomberg WFRE**

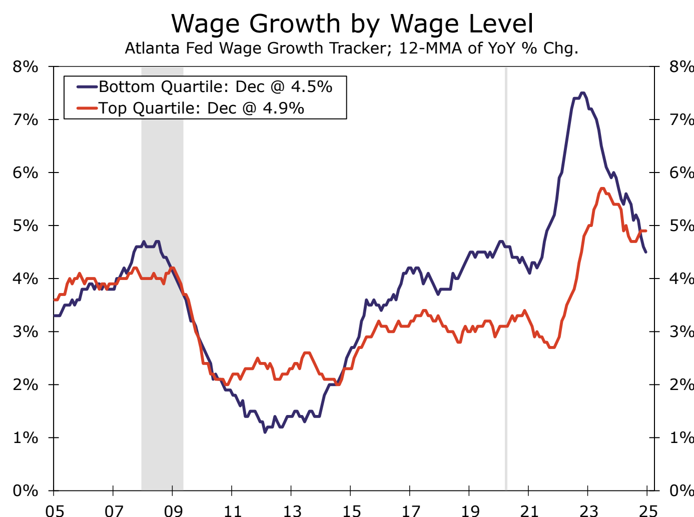
Labor Market: Welcome to Your Life

One way to look at how different tiers of consumers are faring is through the lens of the jobs market. While an aging population has left more households reliant on asset income or Social Security, the majority of consumers remain dependent on their job situation to fuel spending.

Wage growth is slowing faster for lower-paid workers.

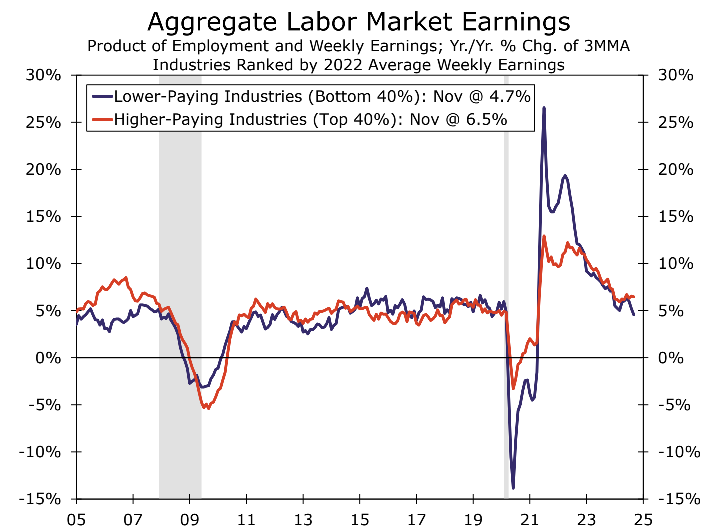
The labor market has definitely cooled over the past year or so. The unemployment rate has risen 0.7 percentage points from its cycle low, while job openings are down by a third from their peak. But some parts of the labor market have simmered down more than others. Wage growth surged in 2021–2022, especially for lower-paid workers. But pay growth for this group has not only subsequently slowed relative to the nearly double-digit pace a few years ago, but also when compared to workers at the higher end of the pay spectrum. As shown by the Atlanta Fed Wage Growth Tracker in Figure 1, pay gains for individuals in the top quartile of earners have steadied over the past year and are outpacing those in the bottom quartile for the first time in more than a decade.

Figure 1



Source: U.S. Department of Labor and Wells Fargo Economics

Figure 2



Source: U.S. Department of Labor and Wells Fargo Economics

The sharper slowdown in labor earnings for lower-paid workers comes as they already experience less predictable hours and more volatility in their month-to-month earnings.[1] Not only has wage growth slowed more markedly for this group, but the number of individuals even gaining employment in lower-paying industries has cooled more noticeably the past two years. The result has been growth in *aggregate* labor market earnings of workers in less-well-paid jobs trailing behind those in better-paying work, creating a particular challenge for businesses that cater to lower-earning individuals (Figure 2).

Inflation: There's No Turning Back

At the same time that workers in low-paying jobs are seeing earnings growth trail that of higher-wage earners, households at the lower end of the income distribution are also facing a stiffer inflation environment. A look at the inflation baskets of households across the income spectrum, which we discussed in a recent report, shows that the cost of living has risen faster for lower-earning consumers in the past year (Figure 3). This mix of relatively slower growth in nominal earnings and higher inflation has been a recipe for weaker *real* income gains among lower-earning consumers.

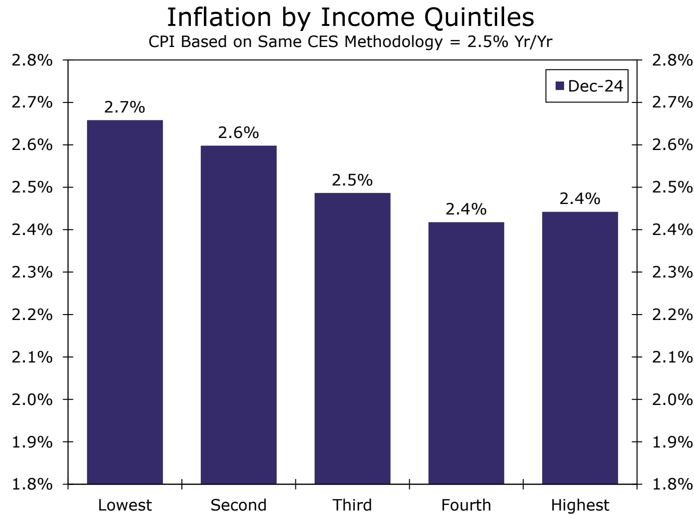
Households at the lower end of the income distribution are also facing a stiffer inflation environment.

The stiffer rate of inflation for lower-income consumers is due to the cost of many necessities still rising faster than discretionary items, which make up a larger share of upper-income households' spending basket. This is a dynamic that has plagued much of the current cycle. Prices for groceries, housing and utilities have risen more than the overall Consumer Price Index since the start of 2020 (Figure 4). As a result, lower-income consumers have faced a larger cumulative rise in the cost of living in recent years, not just over the past 12 months.

The especially rapid price increases for essentials maybe wasn't so cumbersome a few years ago when bank accounts were buffered by stimulus checks and extended jobless benefits, or when the jobs market was especially hot for low-wage workers. But as pandemic-era savings have been run down and

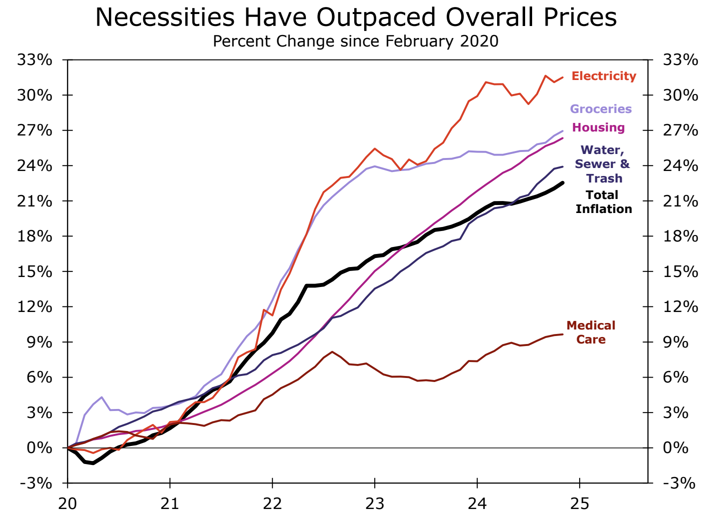
the jobs market has cooled, inflation has become a more pressing challenge. Lower-income households have the least room to maneuver when it comes to higher prices as they already save less, have fewer discretionary purchases to skip and less room on the product ladder to trade down.

Figure 3



Source: U.S. Department of Labor and Wells Fargo Economics

Figure 4



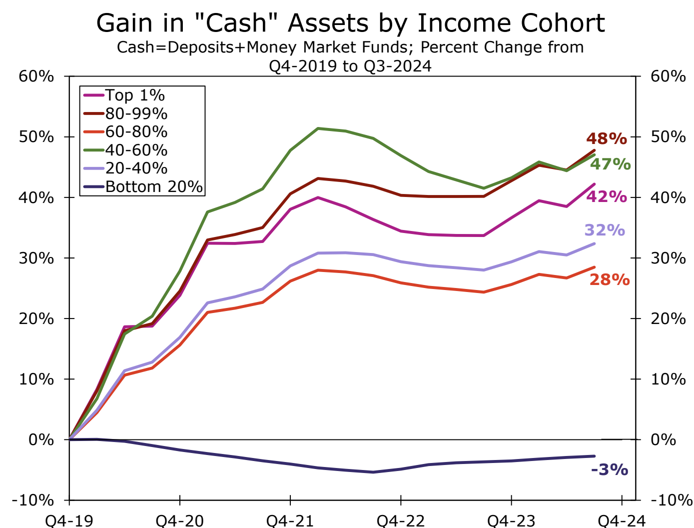
Source: U.S. Department of Labor and Wells Fargo Economics

Saving Rates: These Are the Things I Can Do Without

Weaker real income growth among lower-end consumers makes it even harder to stash away savings at the end of the month. Early on in this cycle, forced thrift and a pandemic-related fiscal cash infusion led households to accumulate cash at record rates nearly across the income spectrum (Figure 5).[2] Those savings have played a crucial role in sustained consumption this cycle, allowing households to keep spending when inflation initially eroded much of the nominal income gains, but in the past two years households have actually been broadly reducing their rate of saving just to keep spending.

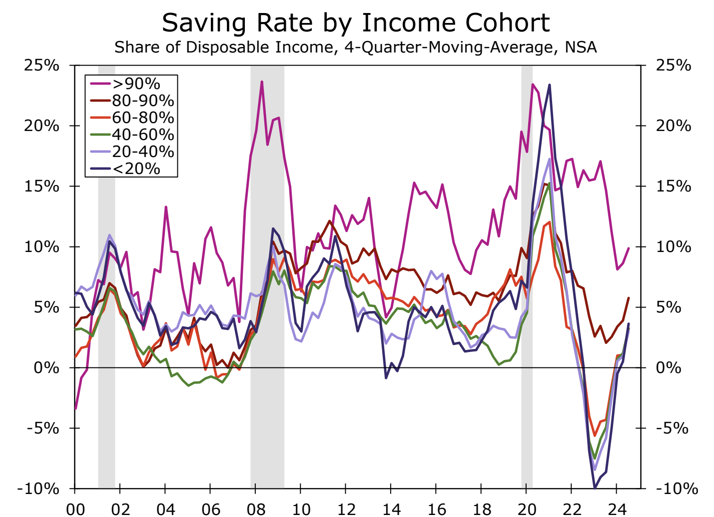
The Bureau of Economic Analysis estimates the overall personal saving rate is currently running just below 5%, which is about three percentage points lower than the rate at which households saved pre-pandemic. But while just about everyone is saving less on average, estimates from Moody's Analytics detail saving patterns that have varied widely across the income spectrum (Figure 6).

Figure 5



Source: Federal Reserve Board and Wells Fargo Economics

Figure 6



Source: Moody's Analytics and Wells Fargo Economics

Saving rates increased for *all* cohorts following the pandemic, but lower- and middle-income household saving rates turned *negative* in early 2022 as they drew down rainy-day funds for the better part of two years. While the recent trend looks to have reversed, all income groups are saving at lower rates than they did in the pre-pandemic expansion, which over time disproportionately impacts the financial security of lower-income groups who have less stashed away to begin with. At the risk of oversimplifying: saving less allows households to spend more today, but it does so at the expense of affording a larger outlay tomorrow.

While just about all households are saving less today, lower savings disproportionately hits the financial security of lower-income groups.

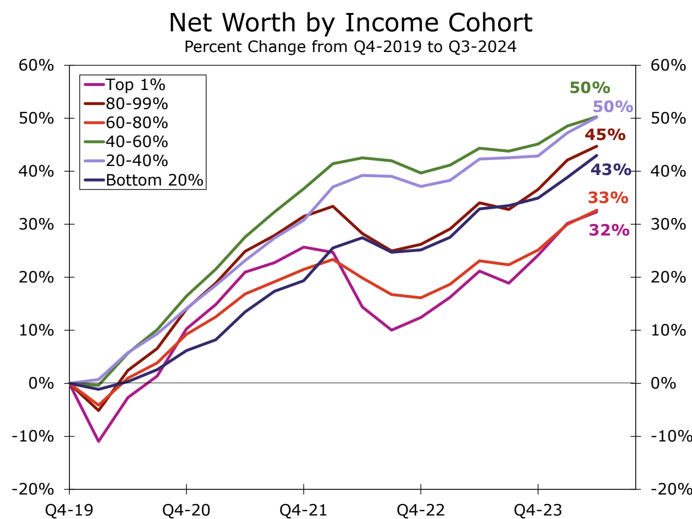
Wealth: I Find it Hard to Tell You, I Find it Hard to Take

Saving less ultimately makes it more challenging to build wealth, particularly for those at the lower end of the income spectrum who already have a higher marginal propensity to consume. The pandemic left most households in better financial shape, but increased reliance on debt for some segments may be chipping away at this buffer.

While there remains a wide gap in net worth among the highest- and lowest-income earners in the United States, net worth has risen *across* the income spectrum since the pandemic. In fact, certain lower-income segments of the population have even seen growth in their net worth outpace some of their higher-earning peers in recent years (Figure 7). Households have also taken on more debt coming out of the pandemic, but in terms of the broad household sector it has more or less kept pace with income growth. This is also true when looking at credit card debt specifically, which has been the fastest area of debt growth in recent years and more explicitly captures underlying spending.

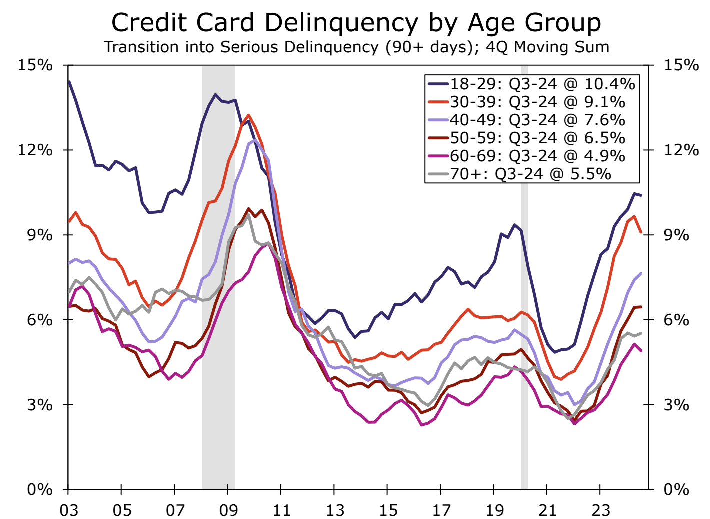
Lower-income and younger households are struggling to stay current on credit card debt.

Figure 7



Source: Federal Reserve Board and Wells Fargo Economics

Figure 8



Source: Federal Reserve Bank of New York and Wells Fargo Economics

Still, a higher cost of consumer credit means *carrying* that debt is costlier today than in periods of lower interest rates, and some households are simply struggling to stay current on servicing these outstanding balances. Credit card delinquency rates have recently reached the highest level since 2011 according to data from the Federal Reserve Bank of New York. Delinquency rates are not broken out by income level, but the data suggest the rise stems from younger borrowers specifically (Figure 8). While we can't draw firm conclusions on what that means for lower-income consumer delinquencies, average income tends to rise with age and separate analysis from the NY Fed detailed that lower-income consumers have been responsible for the recent rise in credit card usage and were also more likely to max out their credit card limits in recent years, signaling stress toward the lower end of the income spectrum. So while net worth data may signal most households are “better off” compared to prior to the pandemic, lower-income and younger consumers are struggling more to stay current on outstanding debt balances, further impairing their ability to keep spending and accumulate additional wealth.

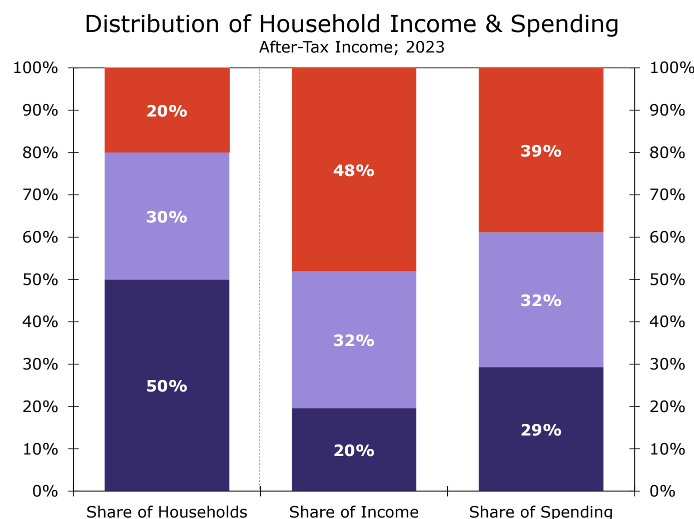
Spending: Nothing Ever Lasts Forever

So how has spending fared across different income groups? While lower-income households typically spend a larger *share* of their income, higher-income households spend more *overall*.

Lower-income households spend a larger share of their income, but higher-income households spend more overall.

High-frequency spending data by income grouping is unavailable, but annual estimates suggest the top 20% of households account for nearly 40% of total consumer spending in the United States (Figure 9). Other data put the estimate as high as 60% of outlays being driven by the top 20%.[3] While these shares may appear large at first glance, these same households command most of the income in the United States. It's also consistent with the idea that most recent recessions were caused by either an external shock, like a pandemic, or some financial imbalance that causes households *across* the income spectrum to stop consuming.

Figure 9



Source: U.S. Department of Labor and Wells Fargo Economics

Ultimately, this little group of big spenders can provide a notable offset to those at the lower end of the income spectrum who have grown more vulnerable, steadying the ship even in the worst of storms for broad consumer spending. While the outsized financial pressure on low-income consumers still weighs on aggregate spending figures, we see it as merely denting rather than derailing consumption growth this year.

Everybody Wants to Rule the World

This is exactly what we expect is happening today. The real purchasing power of those toward the lower end of the income spectrum is being hit as wage growth slows faster for these workers and at the same time they face a stiffer inflationary environment. Higher credit card delinquencies signal consumer fragility, while lower saving rates are slowly chipping away at the medium-to-longer term financial health of this segment of the population as they are less able to save for the future. The fact that net worth is higher and that broad leverage ratios remain in check is cold comfort for the households relying on credit cards to sustain spending, especially as they face elevated interest rates. The future also looks set to bring an untoward challenge for lower-income consumers given the regressive impact of tariffs.[4]

Upper-income consumers can offset these vulnerabilities, but this bifurcation may have an under-appreciated sway on policymakers at the Fed this year.

The disheartening truth is that upper-income consumer segments can largely offset these growing vulnerabilities as their spending is simply less deterred by slower wage gains, inflation and interest rates. That should allow overall consumer spending to still run above 2% this year and signal 'business as usual' when it is anything but usual for a large segment of the population. This struggle of lower-to-middle income households is unmasked in sour sentiment and diminished consumer confidence of recent years despite soaring spending. Consumer data by income come in piecemeal forms, but the differences highlighted in this report show the wide range of circumstances experienced across the income spectrum today.

This consumer bifurcation may also have an under-appreciated sway on policymakers at the Federal Reserve this year. Federal Reserve Chair Powell has often made mention to the fact that inflation is especially painful for lower-income households. But just as a "too hot" labor market can provide outsized opportunities for more marginalized groups of workers, a weak jobs market often takes a harder toll on lower-income households who live paycheck-to-paycheck and have less to fall back on in the form of both savings and wealth.[5] The risk of a sharp deterioration in the labor market has eased significantly since this past summer. But concerns about an overly-restrictive stance of policy damaging the jobs prospects of those least able to afford a loss in employment may compel the FOMC to accept inflation running somewhat above its 2% target for a little longer, and not be so quick to rule out further rate cuts this year.

Appendix

Arthur Conan Doyle cautioned "It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts." We are not aware of high frequency, time-series data that offer a comprehensive assessment of the financial statistics of U.S. consumers by income group. With all due respect to Sherlock Holmes, who gave voice to Mr. Doyle's above admonition, we are not attempting to bend the data to suit anyone's theories. On the contrary, we are doing our level best to make what comparisons we can across disparate sources of data that presently exist. This appendix offers a comprehensive list of what we consider to be the definitive data in this pursuit of understanding the various income tiers of households. Available by request is our curated selection of the greatest hits in the combined work of Curt Smith and Roland Orzabal.

U.S. Household Data by Income Groupings

Topic	Indicator	Source	Release
Inflation			
	Inflation by Income Quintile	Wells Fargo Economics Calculation, U.S. Department of Labor	Consumer Expenditure Survey & Consumer Price Index
Personal Spending			
	Annual Expenditures	U.S. Department of Labor	Consumer Expenditure Survey
	Annual Outlays	Moody's Analytics	N/A
Personal Income			
	Wage Growth	Federal Reserve Bank of Atlanta	Wage Growth Tracker
	Aggregate Labor Market Earnings	Wells Fargo Economics Calculation, U.S. Department of Labor	Employment Situation
	Distribution of Personal Income	U.S. Department of Commerce	Distrbution of Personal Income
Personal Savings			
	Net Worth & Assets	Federal Reserve Board	Distributional Financial Accounts
	Personal Saving Rates	Moody's Analytics	N/A
Credit Utilization			
	Credit Card Delinquencies	Federal Reserve Bank of New York	Survey of Consumer Expectations
Expectations			
	Consumer Confidence	The Conference Board	Consumer Confidence Index
	Consumer Sentiment	The University of Michigan	Consumer Sentiment Index

Endnotes

1 — Bauer, L., East, C. and Howard, O. "Low-income Workers Experience the Most Earnings and Work Hours Instability." Brookings Institute. January 2025. (Return)

2 — These data suggest the bottom 20% of households by income cohort did not see a pandemic-related gain in liquidity (measured as checkable deposits, currency, time deposits & short-term investments and mutual funds). This may partly reflect that a larger portion of this population segment does not have checking/saving accounts. See for example the Federal Reserve's most recent Report on the Economic Wellbeing of U.S. Households, which found that 23% of households making less than $25,000 in income were unbanked, meaning they did not have a checking or savings account. The report also found use of nonbank check cashing and money orders was more common among those with lower income. (Return)

3 — Data from the Consumer Expenditure Survey show the top 20% of households account for nearly 40% of total consumer spending in the United States. Moody's analytics calculates saving rates by

income cohorts using the Federal Reserve's Financial Accounts and Fed's Survey of Consumer Finances. In those calculations, the residual of savings and income results in personal outlays by income cohort. These data suggest the top 20% of households account for nearly 60% of spending. (Return)

4 — To the extent tariffs are passed onto consumers in the form of higher prices, they will hit lower-income consumers harder given that these households spend a higher share of their income. See for example, "The Economic and Distributional Impact of the Trump Administration's Tariff Actions" from the Tax Foundation. (Return)

5 - Aaronson, S., Wascher, W., Daly, M, and Wilcox, D. "Okun Revisited: Who Benefits Most from a Strong Economy?" Brookings Institute. March 2019. (Return)

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Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey Woessner	Economic Analyst	704-410-2911	Aubrey.B.Woessner@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Coren Miller	Administrative Assistant	704-410-6010	Coren.Miller@wellsfargo.com

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