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Why The Economic Vibes Are Off

Today, September 2, 2025 there is an article in the Wall Street Journal titled *Americans Lose Faith That Hard Work Leads to Economic Gains* showing that only 25% believe they have a good chance of raising their standard of living. The article is interesting and solid, and part of a growing body of reporting reconciling differences between economic sentiment and economic data. I've been reflecting on why this disconnect persists and why it feels so emotional.

My Millennial Bias

Before diving in, it's worth acknowledging the generational bias that often colors commentary on economic sentiment. I'm a millennial which does shape the stage of life I'm in where the desire to have a family, buy a home, and build stability is front and center. For many, these goals feel increasingly out of reach. It's not just about upward mobility anymore; it's about whether you can afford to build a life at all. The cost of housing, childcare, and healthcare has made family formation a luxury rather than a norm. And even for those who appear to be doing "fine," the margin for error is razor-thin, a job loss, or medical bill can turn stability into crisis. That's not just economic pressure; it's a persistent undercurrent of anxiety that shapes how people feel about their future.

Core Cost Pressures

Economic sentiment is poor because the three most important expenses for increasing standard of living are rising at a rate much higher than the target (2%) or the headline inflation (CPI 2.7%) and they have for a long time. To me, those expenses are shelter, education and healthcare.

Education and Childcare

College tuition and childcare have compounded at an average annual rate of 3.6% for the last 20 years which has led to a cumulative change of 100%. Childcare is a necessary expense with the US Department of Labor citing Full-Day median costs range from $6,552 to $15,600 per year. I would be ecstatic to only pay $15,600 per child as the reported Massachusetts cost is coming in at near $21,913 per year.

A knee jerk reaction would be to point out that wages have also increased, which is true, however; it is likely not anywhere close to getting ahead of these costs.

According to the Atlanta Fed Wage Growth Tracker, the overall average annual wage increase in the last 20 years is 3.5%. This is an aggregate of all wage earners and still

does not keep pace with the increase in college tuition or daycare expenses. In fact, only people with bachelor's degrees have had wages that have kept pace with these increases meaning the college educated family trees continue to be college educated while others struggle for the privilege. I do not have to work too hard to understand why this may sow resentment.

Shelter

Shelter has compounded at an average annual rate of 3.1% over 20 years which is a cumulative increase of 84%. In the last 5 years, the rate has been 5%.

The top half of wage earners have seen an increase in earnings (4.4%) that is less than the bottom half of earners (5.3%) in the last 5 years. The bottom half have kept pace with shelter increases while the top half has not. The impact has likely led to some discontent from the top 50%. However, shelter availability is not easily tied to wage growth as the biggest deterrent in a home purchase is often the down payment rather than the monthly payment and even rentals may require first, last and security deposit.

According to CNBC, the average age of US homebuyers is 56 years old. According to the National Association of Realtors the average age of a first-time homeowner is 38. Not only is the first-time homebuyer older, but 25% of those buyers get help from Mom and Dad, according to Redfin. You can imagine how the seeds of jealousy can germinate in those who do not have help available or have not benefitted from being part of the capital class.

There are many reasons for the unaffordability of housing including:

1) NIMBY (not in my back yard) neighborhoods
2) Relatively high interest rates keeping inventory low
3) Disciplined home building following the financial crisis
4) Regulatory constraints making building costs more onerous
5) Liquidity constraint to moving[1]

This all leads to a cyclical issue where people will not sell their homes because they cannot afford to move, which leads to low inventory and continued unaffordability. In time, I think the market will sort itself out, but that does not mean discontent is not here and now.

On an emotional front, many people think that they cannot have a family without owning a home. Whether correct or incorrect, I believe that is the cultural perception.

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[1] To move, you need the down payment on your next home in hand and your debt-to-income ratio needs to be able to service the loan on your existing house and your new home because contingencies will not fly in a fiercely competitive market. I do not think this is cited often and I think it is very important.

Additionally, if you cannot afford a home in a quality school district then we are back to section one with unaffordable education.

Medical Care

Medical care has compounded at an average annual rate of 3% which is a cumulative increase of 80% over 20 years.

I cannot pretend to understand why the cost of medical care in the United States is so high. According to the World Population Review, the United States had healthcare costs 43% higher than the second most expensive country on the list (Norway) in 2022. 62% of bankruptcies in the United States are caused by medical bills. Finally, I have never seen price transparency at any doctor's office while I've had many unnecessary long phone calls about health insurance and coverage. We all need medical care either now or in the future so this, once again, is an issue that will bifurcate those that can afford treatment and those that will suffer.

I bought a flat screen TV on Prime day for $115 that would have cost me over $1000 when I graduated from college. My furniture purchases from buying my new house were one time and inexpensive when amortized over the useful life. Food and energy prices ebb and flow and make for great click bait but aren't too important in the long run. The ability to house your family, keep them healthy and provide for a stable future is what is most important to people and those costs have not been friendly to Americans. You may have a decent job, and wages may even keep with inflation year to year but the things you really need and want may seem like a far-off dream. The far-off dream or maybe nightmare is why the vibes are off with 75% of the country believing they cannot increase their standard of living.

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