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Is There Really an Affordability Crisis?

What the Numbers Say-and Who's to Blame

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Introduction

The numbers show there really is an affordability crisis, and it remains a nationwide challenge, driven by enormous pressures on many household budgets. Consumer confidence has dropped to levels typically seen during recessions, although unemployment and inflation both remain relatively mild. Affordability, however, is less about the rate of inflation and more about the general price level, and whether households can consistently pay for core needs—like housing, food, and healthcare.

How Did We Get into This Mess?

The pandemic era triggered rapid inflation, with annual price increases surging in 2021 and peaking near 9% in mid-2022, then cooling toward 2–3% by 2024–25. Overly stimulative fiscal policy and a Federal Reserve that initially viewed inflation as "transitory" both contributed to the spike, delaying a forceful response until early 2022. Policymakers also underestimated the scale and persistence of global supply chain bottlenecks and did not fully anticipate the rapid, "V-shaped" recovery in demand that vaccines and widespread economic reopening unleashed.

Major Fiscal Packages That Juiced Demand:

- The CARES Act (2020), a roughly 2.2 trillion dollar relief package including direct checks, enhanced unemployment benefits, and large support for businesses and state and local governments.
- Subsequent COVID relief, including the December 2020 Response & Relief Act, bringing total pandemic aid to over 3.4 trillion dollars.
- The American Rescue Plan Act (2021), another 1.9 trillion dollar package with broad-based stimulus checks, expanded unemployment benefits, state and local aid, and an expanded child tax credit, all hitting the economy after the initial shock had passed.

Taken together, pandemic relief and stimulus measures ultimately totaled roughly five to six trillion dollars across multiple bills from early 2020 through 2021. Once vaccines arrived and the economy reopened, demand snapped back in a V-shaped recovery, and that torrent of money—much of it still flowing as activity normalized—was like pouring gasoline on an already rekindled fire. By injecting several trillion dollars of stimulus into an economy that was already coming back quickly, policymakers created classic excess demand: far more money and purchasing power chasing a supply of goods and services that was still constrained by bottlenecks, pushing prices sharply higher.

A Federal Reserve That Was Late to the Fight

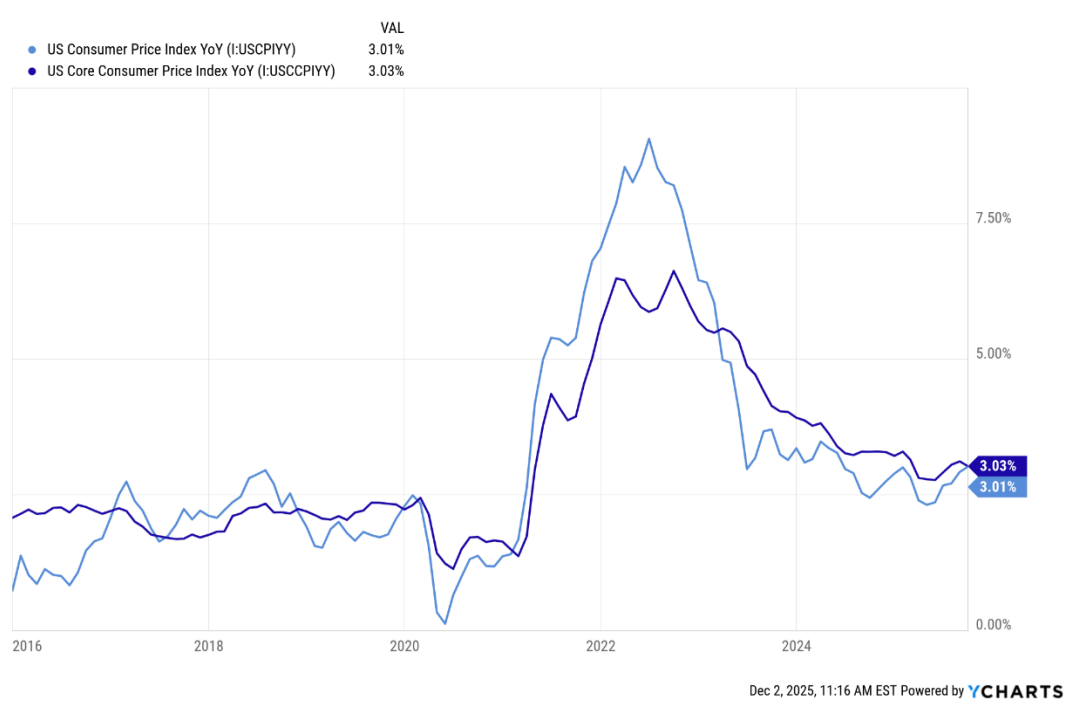
The other half of the story is monetary policy. Congress created the Federal Reserve to help deliver maximum employment and stable prices, and it employs an army of economists and analysts whose job is to spot inflation risks before they spiral out of control. In this episode, the Fed was slow to recognize how quickly supply bottlenecks and a vaccine-driven, V-shaped reopening would collide with massive stimulus, and it waited too long to start tightening policy.

- Through most of 2021, Fed leaders repeatedly described inflation as “transitory,” emphasizing supply bottlenecks and expecting price pressures to fade on their own.
- The policy rate stayed near zero and asset purchases continued even as inflation moved well above the 2% target and broadened beyond a few pandemic-sensitive categories.
- The first interest rate hike did not come until March 2022, by which point year-over-year inflation was already above 6%, and the real policy rate remained stimulative to the economy until mid-2022.

This combination of very large, deficit-financed stimulus and a central bank that was slow to withdraw emergency-era support helped push overall demand far above the economy’s ability to supply goods, services, and labor at pre-pandemic prices, setting the stage for the inflation shock.

Today, the inflation rate is moderating, but lower inflation rates only slow additional price hikes; they don’t reverse the cumulative 20–30% jump in costs for essentials that took place over just a few years.

Consumer Price Index and Core Consumer Price Index – Last 10 Years



What the Affordability Crisis Means

Affordability describes a household's ability to consistently meet its basic needs—such as housing, food, healthcare, and transportation—without exhausting its resources or sacrificing long-term financial security. In practice, something is affordable when paying for essentials leaves enough room in the budget for saving, investing, emergencies, and enjoyment of life, rather than forcing trade-offs that undermine well-being or future goals.

For many households, this shows up as tighter monthly budgets, increased borrowing, delayed milestones (home, kids, retirement saving), and a growing temptation to "swing for the fences" with investments to catch up.

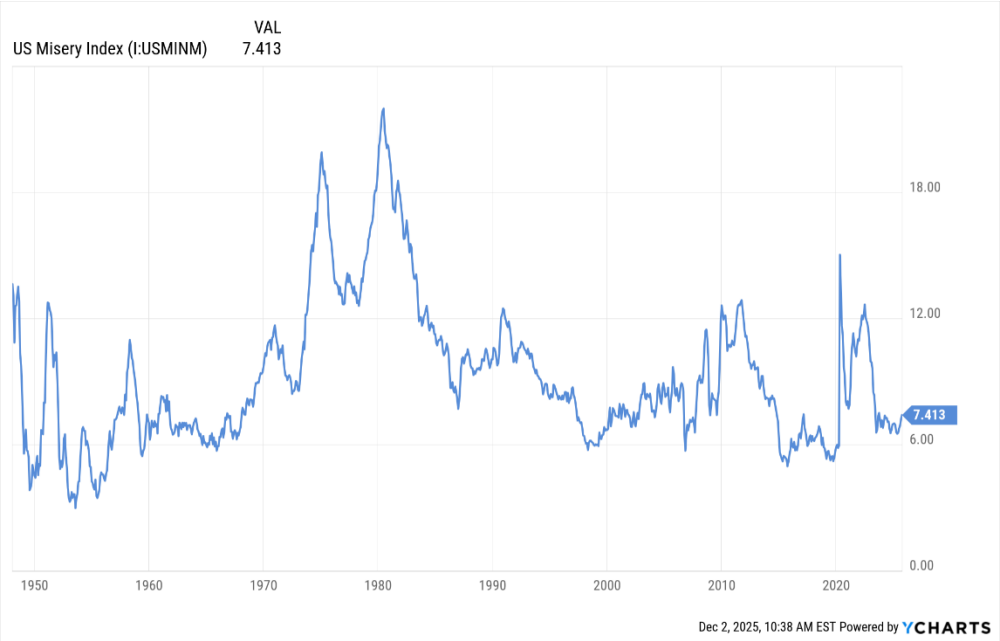
More than half of American families now find themselves unable to afford what it truly costs to live securely, and about 75% of households cannot afford a median-priced new home at current interest rates. The number of renter households experiencing severe cost burdens continues to climb, and affordable options are shrinking, especially for lower- and middle-income families.

Sentiment: Recession-level Gloom in a Growing Economy

Consumer confidence is unusually depressed relative to the fundamentals. The Conference Board's Consumer Confidence Index fell to 88.7 in November 2025, its lowest reading since April, while the University of Michigan Index of Consumer Sentiment is near 50, a level historically associated with recession troughs. Yet

unemployment is in the low-4% range and inflation is near 3%, leaving the Misery Index (unemployment + Inflation) well below its long-run average.

The Misery Index Remains Low



Several forces help explain this disconnect:

- Households react to price *levels*, not just inflation rates; after a 20–30% jump in prices, "3% inflation" still feels expensive.
- People anchor on pre-pandemic prices, so even modest real wage gains feel inadequate.
- Expectations surveys show persistent anxiety about jobs, politics, and policy, not just current conditions.

Prices vs. Wages: Averages vs. Lived Experience

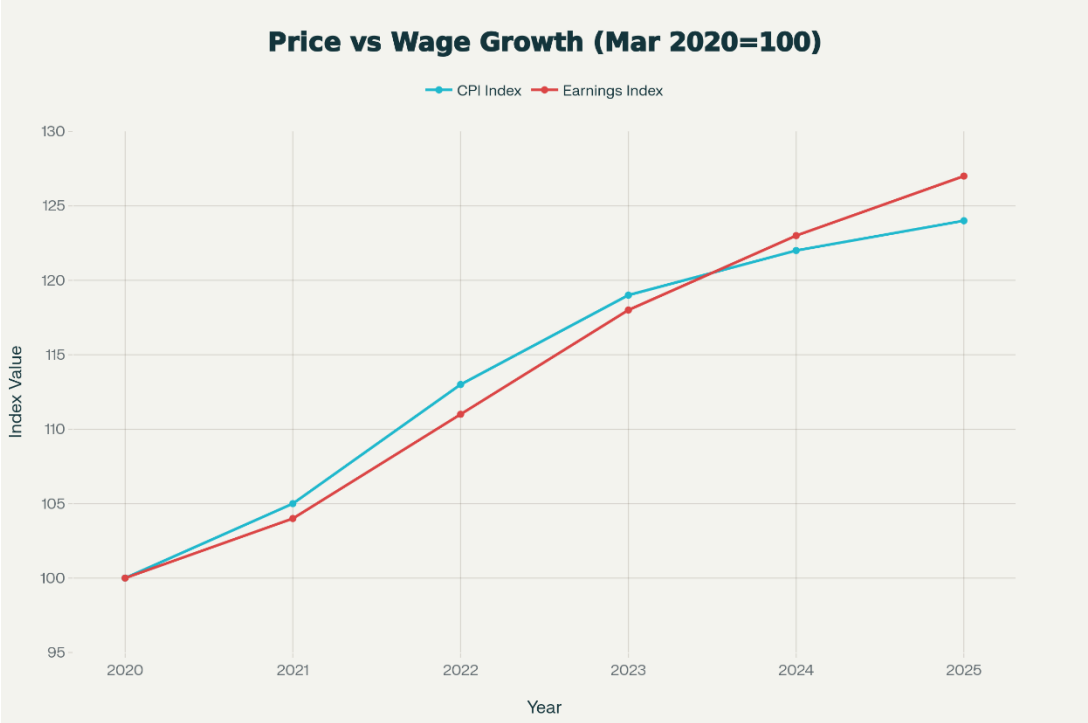
Since the pandemic, inflation has been unusually concentrated in essentials and shelter, amplifying pain even when average real wages look flat to slightly positive. Independent analyses show:

- Overall prices up roughly a quarter since late 2019, with essentials like housing, food, electricity, and childcare often up closer to 30%.
- Median household incomes up closer to 20–22% over the same span, implying a squeeze in real purchasing power for the middle of the distribution.

At the same time, several macro series indicate that average real wages and real disposable income per household are near record highs once higher earners and dual-income households are included. Both can be true: averages look acceptable, while the median family—and many single earners—feels under growing pressure.

The chart below uses illustrative index values (March 2020 = 100) to show a pattern that fits many households' perception: prices and wages climbing together, with wages only modestly ahead.

Comparison of cumulative price inflation and wage growth since 2020 (Mar 2020=100)



Source: Statista

By 2025, cumulative prices are up about 24% while average hourly earnings are up about 27%, leaving only a small net gain in real wages. For families facing steeper increases in rent, childcare, or insurance than the "average basket," that modest gain disappears in practice.

Why it feels worse than the aggregates

Several structural and behavioral factors make the affordability crisis feel worse than headline data suggest:

- **Essentials first.** Spending on food, housing, transportation, healthcare, childcare, and insurance is non-discretionary; double-digit increases here force painful trade-offs elsewhere.
- **Front-loaded life-cycle costs.** Younger adults face the highest housing, student-loan, and childcare bills just as their earnings and savings are lowest.
- **Single-earner vulnerability.** Single-person and single-parent households cannot spread fixed costs over multiple earners, so each price shock hits proportionally harder.

- **Cumulative shock psychology.** A one-time 20–30% step-up in prices is far more upsetting than a slow 2% drift, even if wage growth eventually catches up.

This combination explains how survey data can record “record incomes” alongside widespread reports of financial strain.

Housing and Shelter: The Epicenter

Housing is the single biggest driver of the affordability squeeze. Key patterns include:

- Home prices in many metros are up 40–60% or more relative to pre-2020 levels, while 30-year mortgage rates have more than doubled from their lows, crushing buying power.
- The income needed to afford a median-priced home under standard assumptions now often exceeds the actual median household income, creating a large affordability gap.
- For renters, low vacancy rates and limited new supply have pushed rent-to-income ratios to multi-decade highs in many cities, delaying household formation and keeping more adults in their 20s and 30s living with parents or roommates.

Distributional Fault Lines: Age, Marital status, and Cohort

Affordability pressure is not evenly distributed. Several fault lines stand out:

- **Age.** Younger adults pay today’s elevated prices for housing and education with early-career incomes, while older adults more often benefit from higher earnings, accumulated assets, and legacy low-rate mortgages.
- **Marital/household status.** Dual-earner couples enjoy economies of scale; single adults shoulder rent, utilities, and insurance alone, and single parents juggle childcare costs plus reduced work hours.
- **Wealth and asset ownership.** Households that owned homes and stocks before 2020 captured much of the upside from asset inflation, while renters and those outside financial markets missed that tailwind and now face higher entry prices.

This helps explain why aggregate consumer spending remains surprisingly resilient—higher-income and asset-owning households keep spending—while surveys show pervasive pessimism among those still trying to get on the ladder.

On paper, average wages have roughly kept pace with cumulative price increases since the pandemic, but that conceals large differences by age and household structure. In practice, many young adults, older Americans on fixed incomes, and single earners have seen their budgets deteriorate even as headline income statistics hit new highs.

Several structural shifts magnify their vulnerability:

- **More single adults.** Single adults now account for a much larger share of the working-age population than a few decades ago, which means more households trying to cover rent, utilities, and insurance on a single paycheck.
- **Rising never-married share.** The long-run rise in never-married adults contributes to a bigger pool of one-income households facing high housing and childcare costs.
- **Delayed household formation.** A growing share of people in their late 20s and early 30s remain with parents or roommates because they cannot afford independent households at today's rents and home prices.
- **Life-cycle.** Older cohorts generally enjoy higher earnings and more assets, while younger cohorts confront elevated living costs with limited savings and weaker balance sheets, translating demographic structure into income and wealth gaps.

Outlook

Looking ahead, affordability is likely to remain a central issue in American economic and political life. There is reason for cautious optimism: The economy is still growing, and most forecasters expect inflation to hover close to the Federal Reserve's 2% longer-run target over the coming decade, rather than repeating the extreme spikes of 2021–22. The Fed has repeatedly reaffirmed that 2% goal and has been adjusting interest rates to bring inflation back toward it, which, if successful, should allow wages and productivity to compound over time without another big price shock. New Fed leadership is on the way that will have every incentive to show the institution has learned from the mistakes of the last cycle. If inflation stays near target and the job market remains reasonably healthy, gradual real wage growth can slowly rebuild some of the purchasing power that households lost during the high-inflation years.

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