

Economist Insights: Q3-2026-From Labor Market Trends to Purchasing Power

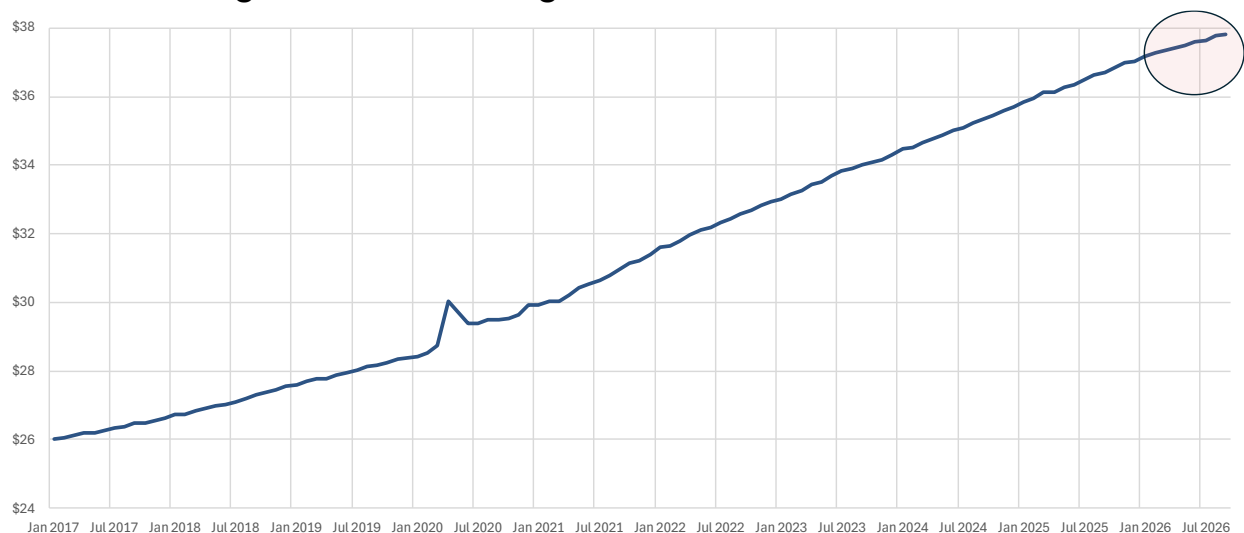
Closer Look: What Wages Will Buy

Earlier this year, we saw a **sharp plunge in the purchasing power of earnings**, something we have not seen since COVID. Where did that come from? What does that mean for workers? Where do we go from here?

What is “earnings’ purchasing power”?

First, let’s look at nominal earnings. **Nominal earnings** are the actual dollar values being paid to workers and require date context to fully understand (e.g., a \$15 wage in 2000 means something very different than a \$15 wage today). We look at nominal earnings here as the [average hourly pay for private employees](#), excluding benefits, bonuses, and taxes.

Nominal Earnings’ Growth Is Slowing



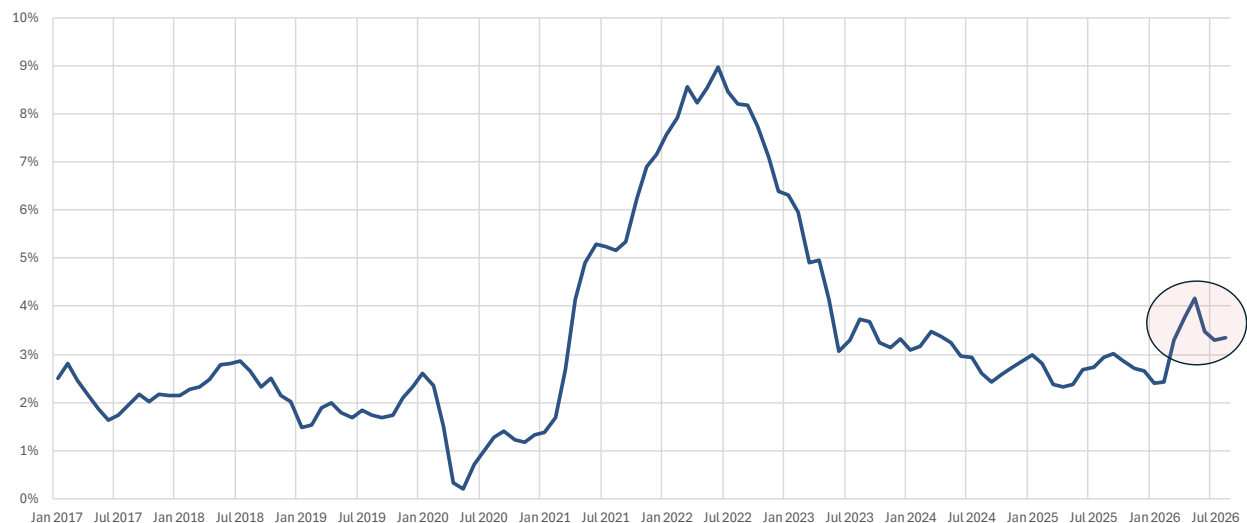
Nominal earnings are the average hourly pay for private employees as measured by the Current Employment Statistics (CES) or ‘Establishment Survey.’

Pre-COVID, we saw around 0.3% growth in nominal earnings each month, with the average nominal hourly pay going from \$26.00 in January of 2017 to \$28.54 in February of 2020. After the COVID blip and a slightly shaky recovery period, we settled into a monthly growth rate of around 0.4%. That is, until earlier this

year. Since February, we've dropped back down to an average monthly growth of 0.2%.

Now, let's look at prices. **Inflation** is the increase in prices of a specific bundle of goods and services. While different combinations of goods and services are used for various purposes, here we use the [Consumer Price Index \(CPI\)](#), which includes food, clothing, shelter, fuel, transportation fares, service fees, and sales taxes. It is normal and expected for prices to generally trend upwards over time. That's not an issue. In fact, the Federal Reserve targets a 2% annual inflation rate (although, [they target the Personal Consumption Expenditures measure, which is a slightly different bundle of goods and services than the CPI](#)). What does have the potential to cause issues is when there is a sudden jump in prices over a short period.

Inflation Jumped Up This Year

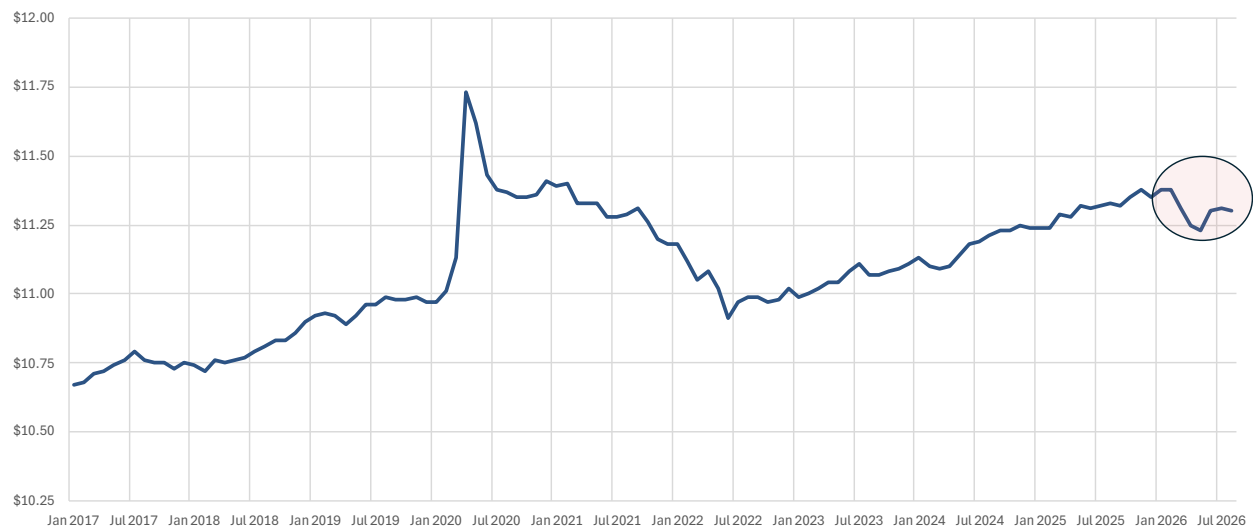


Inflation is measured by the [Consumer Price Index \(CPI\)](#) and is shown in annual growth rates. Data for October 2025 is the average of September 2025 and November 2025 since data collection did not occur.

In the years leading up to COVID, we were bobbing around the 2% annual growth target. We can see the much higher growth in inflation during COVID and the COVID recovery (over 4% annual growth). In 2024 and 2025, we settled back to just under 3% annual growth in prices. Since March this year, we have been consistently above 3% annual growth (as high as 4.2% in May), [most of which is due to rising energy costs](#), specifically gasoline and fuel oil.

Inflation means that the nominal earnings that we saw slowing down above, have even less “power” when considering what things now cost. To see what that looks like, we can adjust nominal earnings to account for prices and get **real earnings or earnings’ purchasing power**.

Real Earnings Dropped This Year



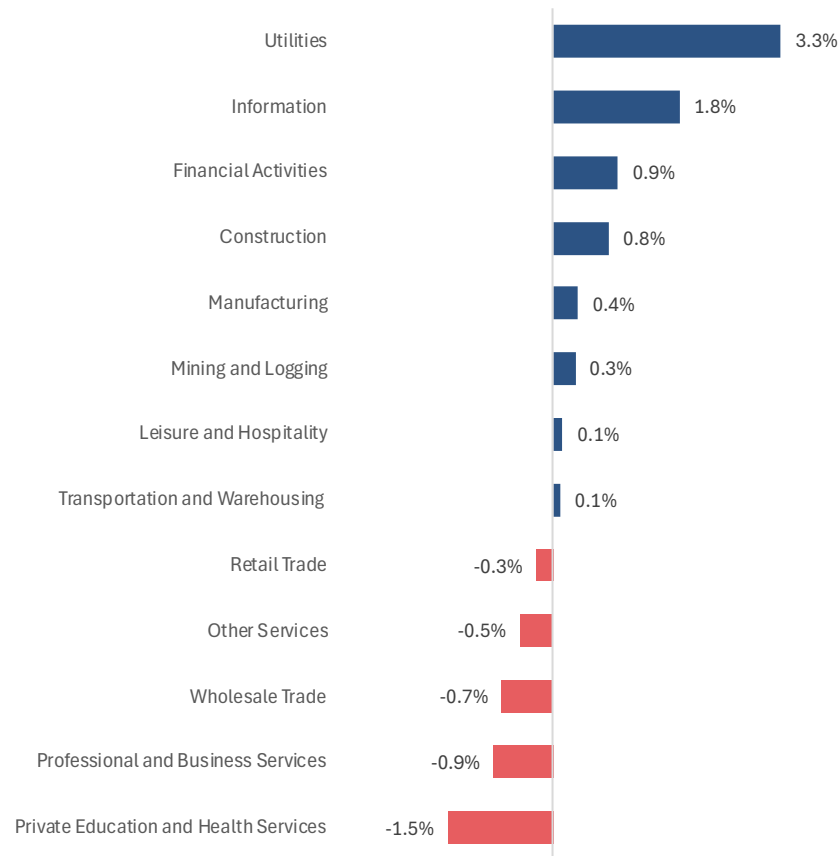
Real earnings are average hourly nominal earnings from CES adjusted for inflation (CPI). CPI data for October 2025 is the average of September 2025 and November 2025 since data collection did not occur.

Real earnings were mostly stable in the years leading up to COVID. There was a modest increase averaging 0.1% from month to month. After inflation settled back down post-COVID, real earnings regained their footing. By the second half of 2022, they were back in line with where they had been in the second half of 2019. Average real earnings were \$10.99 and \$10.98, respectively. Between the end of 2022 and early this year, we were back to an average of 0.1% growth month to month, picking back up with our pre-COVID pace. However, the sudden jump in inflation combined with slower growth for nominal wages caused a **drop in real wages in March this year**. 2026 started with average real wages of \$11.38, fell to a low of \$11.23 in May (coinciding with the peak of inflation) and are now sitting around \$11.30. This is the largest drop in real wages that we have experienced since COVID.

Is earnings' purchasing power down for everyone?

Earnings' purchasing power is not the same across the board.

Real Wages Are Growing for the Utilities and Information Sectors and Falling for Private Education and Health Services



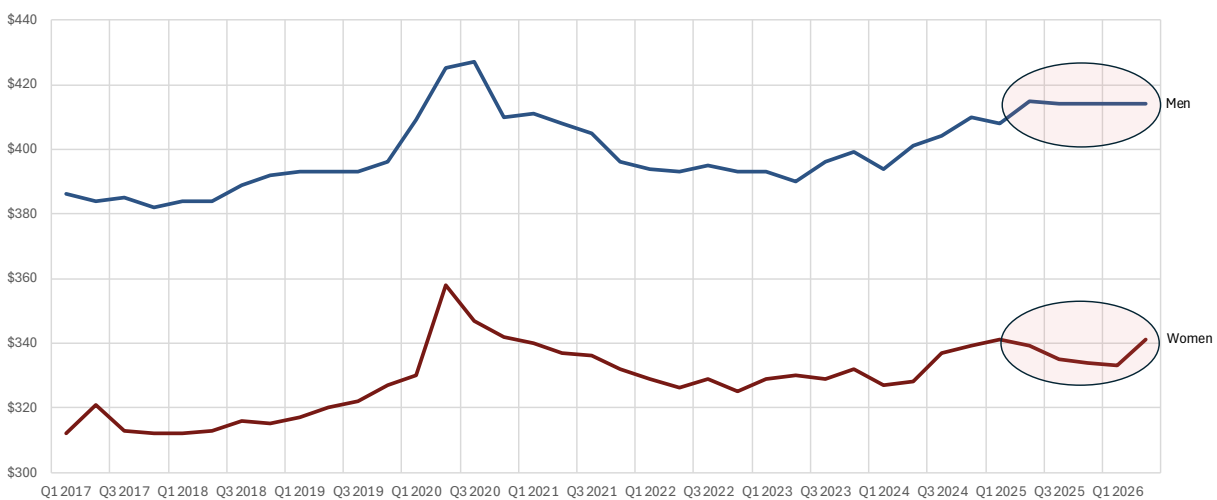
Real earnings are average hourly nominal earnings from CES adjusted for inflation (CPI) and are shown in annual growth rates for August 2026.

CPI data for October 2025 is the average of September 2025 and November 2025 since data collection did not occur.

By industry, the Utilities sector has seen consistent growth in real wages this year, including a massive 4.6% annual increase in real wages in July and a more modest 3.3% annual increase in real wages in August. The Information sector has also seen some growth with a 1.8% rise in real wages from last August to this August. On the flip side, Private Education and Health Services has suffered the most, with real wages 1.5% below last year.

When we look at the purchasing power of earnings **by demographic characteristics**, we use a slightly different metric. Here we use [Current Population Survey \(CPS\) rather than the CES](#) we looked at earlier. We also focus only on full-time workers and weekly pay. However, we are still looking at earnings adjusted for inflation.

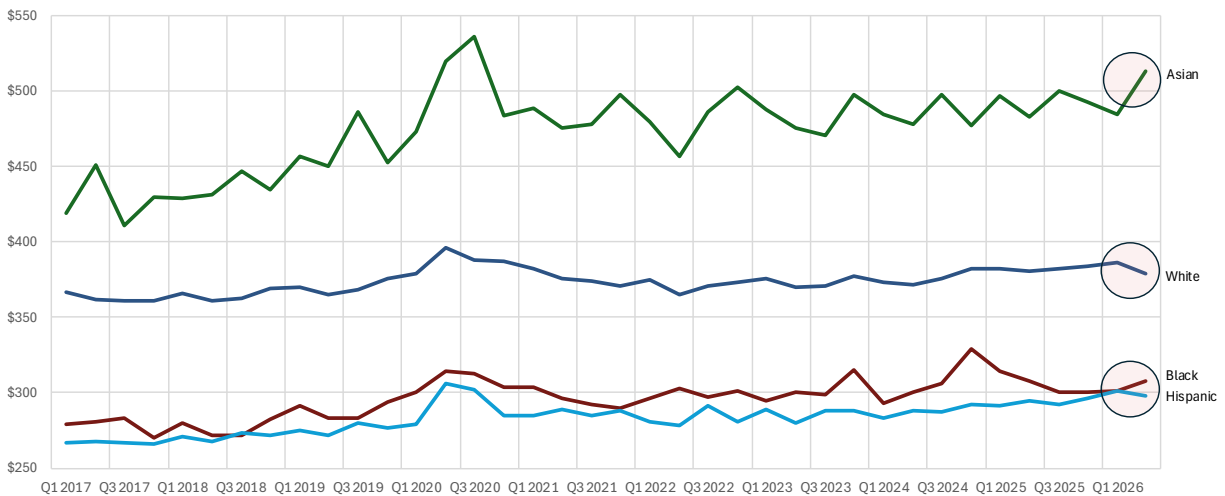
Women's Real Weekly Earnings Have Dipped and Recovered While Men's Have Stayed Constant



Real earnings are median usual weekly nominal earnings from CPS adjusted for inflation (CPI). Data for Q4 2025 is the average of Q3 2025 and Q1 2026 since data collection did not occur.

While women's earnings have averaged around 82% of men's earnings in the past decade, they've followed similar patterns with a few periods of divergence. Earnings growth for both men and women slowed down in early 2025. By Q3 of 2025, not only were women's real earnings no longer growing, but they were actually down by 0.6% since the previous year. Men's real earnings stayed mostly flat. By the beginning of this year, women's real earnings had dropped by 2.3% since the beginning of 2025 while men's earnings stayed flat. **In Q1, the purchasing power of women's earnings was only 80% of men's, a low not seen since 2018.** More recent data indicate a reversal back to early 2025 earnings levels for women while men's earnings stay the same.

Mostly Stagnant Real Weekly Earnings for All Racial/Ethnic Groups Could Be Changing but Not In a Good Way for Everyone



Real earnings are median usual weekly nominal earnings from CPS adjusted for inflation (CPI). Data for Q4 2025 is the average of Q3 2025 and Q1 2026 since data collection did not occur.

There's a bit more volatility when looking at changes in earnings power for different racial/ethnic groups, in part due to smaller sample sizes and less precise estimates. Through most of 2022 and 2023, all groups saw mostly stagnant real earnings.

- **White** workers' earnings' purchasing power has stayed around the same since then, with some small increases along the way. The most recent data, Q2 of 2026, shows a small drop in White worker's real earnings. We will have to see if that is a changing trend or a data blip (Q3 data will come out later in October).
- While earnings estimates for **Asian** workers are pretty bouncy, they have bobbed mostly around the same level over the past few years. Q2 of 2026 shows an uptick that might or might not just be data "noise."
- **Hispanic** worker's real earnings have grown just very slightly more than White and Asian workers' earnings. However, it has done little to close the overall earnings gap for them, which remains around 78% of White workers' earnings and 60% of Asian worker's earnings. Q2 has a very small indication of falling real earnings, but again, that could be a blip in the data.
- **Black** workers have experienced a slightly different trend in real earnings recently. They saw a boost in earnings power in late 2024 and early 2025

but it then dropped right back down to 2023 levels by mid-2025. Recently, the purchasing power of their earnings is similar or even slightly lower relative to White, Asian, and Hispanic workers' earnings' purchasing power as it was through most of 2022-2024. A small increase in real earnings in Q2 this year might be signaling a change, or, again, it might just be noise.

What to keep an eye out for

As we saw, changes in the purchasing power of earnings come from two places: actual pay (nominal earnings) and inflation. What happens to earnings' purchasing power all depends on the relationship between the two. Even if both are growing, if inflation grows faster than nominal wages, then the purchasing power of earnings will fall.

One thing to consider that we did not touch on here is why nominal wages are not growing enough to keep pace with inflation. There is a lot of discourse around this topic, but an interesting thing to note is that since the beginning of 2025 the amount that employers spend on [healthcare benefits](#) for workers is growing twice as fast (6.0% annual growth in Q2) as the amount they spend on [wages](#) (3.1% annual growth in Q2) per the Employment Cost Index (ECI). While looking at total compensation from the ECI gives us a better sense of what employers spend on workers, it does not change the story on the purchasing power of workers' earnings.

One last thing to keep in mind is that earnings' purchasing power only includes people who are employed. If people move out of employment, their earnings essentially drop to zero. This could mean moving into unemployment or leaving the labor force altogether. However, these individuals are not included in the earnings estimates. The reverse is also true. So, it is important to keep in mind labor force participation rates, unemployment rates, and other economic factors when looking at earnings' purchasing power and changes over time.