Wage Increases Don't Necessarily Mean More Money in Your Pockets

A jump in inflation could mean that even with a pay raise, you could have less money in your pocket.

To evaluate wages, there are two factors to consider, nominal wage growth and real wage growth. A nominal wage is simply the wage, in U.S. dollars. A real wage is the nominal wage growth in the context of inflation, adjusted for the level of purchasing power held by the U.S. dollar. For example, $5 in 1950 has the same purchasing power as around $60 in 2022. Thus being paid $5 in 1950 is worth much more than being paid $5 in 2022.

Both real and nominal wages ballooned in early 2020, and then both also fell tremendously one year later in early 2021. However, since this fall in both wage measures, nominal wages have continued to increase while the purchasing power of these wages continues to fall because of inflation.

In recent months, inflation has grown at an above-average rate, reaching 9.1% in June 2022. This inflation rate is greater than the rate at which wages grow, which means that real wages are actually decreasing relative to inflation. While wages have increased at over 5% for the past 6 months, real wages have decreased over this same time. So, consumers are left with less purchasing power even if their salary has risen.

Sources: U.S. Bureau of Labor Statistics, EPI analysis of Bureau of Labor Statistics Current Employment Statistics.

Real Wage Growth, January 2009 to June 2022