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Morning Briefing

The Affordability Crisis

Check out the accompanying [chart collection](#).

Executive Summary: On paper, the American consumer looks flush: Unemployment is low, inflation is down, the stock market is up, and average wage growth has kept up with inflation. Indeed, the Misery Index is low, which usually means consumer sentiment readings are high. But, no, sentiment is low. What gives? ... Several factors may contribute to Americans' feeling that life has become less affordable than before the pandemic. The prices of nine PCED components—essentials for many—have inflated way faster than wages. And many Americans' wage growth is below the average and lags inflation. So why is consumer spending holding up so well? ... Also: Dr Ed reviews "The Life of Chuck" (+ + +).

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Affordability I: A Depressed State of Mind. Why are consumers so depressed? The monthly Consumer Optimism Index (COI), which is the average of the Consumer Sentiment Index (CSI) and the Consumer Confidence Index (CCI), fell to 69.5 in November ([Fig. 1](#)). That's a level consistent with previous recession troughs in this average index.

The current conditions component of the CCI fell to 88.7 in November, which isn't as bad as the overall average COI ([Fig. 2](#)). However, the current conditions CSI, at 50.3, is much worse than the CCI's 88.7 comparable current conditions component. The expectations component of the COI, CSI, and CCI are all down in the same depressing neighborhood, at 57.1, 51.0, and 63.2 ([Fig. 3](#)).

It's not clear why consumer expectations are uniformly depressed. The divergence between the current conditions CSI and CCI is especially puzzling. The former tends to reflect inflationary expectations, while the latter reflects labor market conditions. As we've noted before, we have more confidence in the CCI than in the CSI, which seems to be chronically pessimistic, especially in recent years.

The Misery Index, which is the sum of the unemployment rate and the CPI inflation rate (on a y/y basis), is relatively low at 7.4% during September ([Fig. 4](#) and [Fig. 5](#)). It has averaged 9.0% since the late 1940s. The Misery Index has been inversely correlated with both the CCI and CSI ([Fig. 6](#) and [Fig. 7](#)). However, in recent years, the CSI has been depressed even though there is less misery.

Consider the following reasons for less misery, which one would expect to produce high levels of consumer optimism:

(1) *Unemployment is low.* The unemployment rate has increased from last year's trough of 3.7% during January to 4.4% during September. That is historically a very low jobless rate. However, 27.5% of respondents in the November CCI survey expect fewer jobs in six months. That's a relatively high reading ([Fig. 8](#)).

(2) *Inflation is down.* The inflation rate has dropped from a 9.0% recent peak during 2022 to 3.0% currently. Then again, consumers' median expected inflation rate over the year ahead as measured by the November CSI survey is 4.5% ([Fig. 9](#)). That rate as registered by the New York Fed survey of consumers, however, is a less concerning 3.2% during October.

(3) *Stocks are up.* Interestingly, the Misery Index is inversely correlated with the forward P/E of the S&P 500 ([Fig. 10](#)). Stock prices have risen to record highs recently on strong earnings and elevated valuation multiples. Yet that seems to have had no impact on consumer optimism in recent months. According to Gallup, the percentage of adult Americans who own stocks in 2025 is 62% ([Fig. 11](#)).

(4) *Wages continue to outpace inflation.* Inflation may be down a lot since it peaked at 9.0% during June 2022. But most people remember that prices were much lower before the pandemic. So they feel as though their purchasing power has been eroded significantly. The macro data refute this notion.

Real hourly wages, defined as average hourly earnings divided by the personal consumption expenditures deflator, rose to a new record high of \$28.74 during August. The real wage rate for low-wage workers also rose to a record high, of \$24.71, while the real wage rate for high-wage workers remains below its 2020 record high ([Fig. 12](#)). On a trend basis, average hourly wages have been outpacing consumer prices since the mid-1990s and continue to do so.

Real disposable personal income per household rose to a record \$136,400 (saar) during

Q2, excluding the pandemic years when government income support boosted incomes to record highs ([Fig. 13](#)). Consumers have lots of purchasing power, which explains why real personal consumption per household rose to a record high of \$124,000 (saar) during Q2. These averages may be distorted by the wealthiest 10% of households, but there are only 12.2 million of them. They don't each spend much more than each of the rest of us 123.0 million households on most goods and services.

Hence our conclusion that Americans, on average, have never been better off than they are today. Why don't the consumer sentiment surveys confirm our conclusion?

Affordability II: Age & Marital Status Matter. As we noted above, prices have risen significantly since the start of the pandemic. Perhaps many Americans expected them to fall once the pandemic ended. That hasn't happened. Instead, the inflation rate has remained above the Fed's official inflation target of 2.0% since March 2021 ([Fig. 14](#)).

Yes, but wages have kept pace with the price increases. However, that's on average. There are plenty of Americans, especially young ones and old ones, whose wages have not kept up with prices. Single-person households may be having an especially tough time with affordability. Consider the following:

(1) *Lots of singles.* As of September, singles aged 16 and older accounted for 51.3% of the civilian noninstitutional working-age population ([Fig. 15](#)). That's up from 38% in the late 1970s.

(2) *Lots of never married singles.* The population of adult singles is 140.6 million ([Fig. 16](#)). The number of those who have never been married rose to a record 91.6 million, or 33% of the adult population of singles. That's up from 28% in 1980 ([Fig. 17](#)).

(3) *Living at home.* The percentage of people aged 25 to 34 who are living in their parents' home was 30% in 2025 ([Fig. 18](#)).

(4) *Supporting the kids.* We've long contended that a major reason for income and wealth inequality is the age profile of a population. Older people tend to have higher incomes and wealth than younger ones.

In the US, the Baby Boomers have "lived long and prospered," as they were told to do by Spock of *Star Trek*. Their kids are finding it hard to prosper because they face a greater affordability problem than did their parents. Many of their parents are helping their young

adult children deal with this challenge by providing some financial support. Many of the kids can look forward to sizeable inheritances once their parents pass away.

(5) *Complex consumer*. The consumer story is a complicated one. The above is our explanation for why consumer spending remains resilient despite the affordability problem.

Affordability III: By the Numbers. There is no debating that prices have increased significantly since the start of the pandemic. On average, wage growth has kept up with price inflation. However, there are lots of people whose wages have not kept up. Let's review the price shocks since March 2020:

(1) *Essentials*. The headline PCED increased 22.1% since March 2020 through August of this year ([Fig. 19](#)). We track 15 components of the PCED that are essential ones for almost everyone. Thirteen of them increased more than the PCED over this period.

Over this period, average hourly earnings rose 27.6% for all workers, 31.4% for low-wage workers, and 18.9% for high-wage workers ([Fig. 20](#)). Nine of the 15 essential components rose faster than the wages of all workers.

(2) *Nondurable goods*. The PCED for nondurable goods rose 19.1% since March 2020 through August 2025 ([Fig. 21](#)). Many of these goods are essentials and have increased by less than the wages of all workers. Gasoline is an exception. It rose 32.1%.

(3) *Durable goods*. The PCED for durable goods rose 10.0% since March 2020 ([Fig. 22](#)). Most durable goods prices rose by less than wages except for used motor vehicle prices.

(4) *Services*. The PCED for services is up 30.2% since March 2020 ([Fig. 23](#)). The upside outliers are personal care services and transportation services.

(5) *Insurance*. Again, wage increases have mostly kept pace with price increases since the start of the pandemic. Nevertheless, the price increases have been huge and all too easy to recognize. For example, insurance wasn't much of an issue for most folks prior to the pandemic. It was widely viewed as affordable. However, the increases in home insurance (29.0%), auto insurance (26.4%), and life insurance (25.5%) just since early 2020 have exacerbated the affordability crisis for workers who have been on the wrong side of the average increase in wages ([Fig. 24](#)).

Movie. "The Life of Chuck" (+ + +) is a unique film, made in 2024, about the life of an

ordinary man named “Charles Krantz.” It is about the meaning of life, death, and dancing. Everyone’s life can be extraordinary if we live it to the fullest and cherish our moments with our families. The cast is excellent, and the dancing is great too. (See our movie reviews [archive](#).)

Calendars

US: Mon: ISM M-PMI & Prices Paid 52.9, 59.5; S&P Global M-PMI 50.2; Construction Spending -0.1%; Powell. **Tues:** Consumer Confidence 93.2; Retail Sales 0.3% (September); Business Inventories 0.0%; PPI Headline & Core 0.3%, 0.3%; Pending Home Sales 0.0%; Bowman. (Source: FX Street)

Global: Mon: Eurozone, Germany & France 49.7, 48.4 & 47.8; UK Mortgage Applications 64.4k; Japan M-PMI 48.8; China M-PMI 50.5; UK M-PMI 50.2; Nagel; Ueda; Dhingra. **Tues:** Eurozone Headline & Core CPI 2.1%, 2.4% y/y; Eurozone Unemployment Rate 6.3%. (Source: FX Street)

Strategy Indicators

Global Stock Markets (US\$ Performance) ([link](#)): The US MSCI index soared 3.8% during the November 28 week to 0.8% below its record high on October 28. The AC World ex-US underperformed last week, albeit with a 3.1% gain, to 1.6% below its record high on October 29. The AC World ex-US has been hitting new record highs since May 14—the first time it’s had such a long streak of successive record highs since June 15, 2021. EM Latin America was the best performing region last week, with a gain of 4.5%, followed by EMU (3.6%), Europe (3.4), EAFE (3.2), and the AC World ex-US. EMEA was the worst regional performer, with a gain 0.8%, followed by EM (2.5) and EM Asia (2.5). The Canada MSCI index, with a gain of 5.1%, performed the best among country indexes, ahead of Brazil (4.8), Taiwan (4.7), and Sweden (4.6). The India MSCI index was the worst performer w/w, with a gain of 0.7%, followed by China (2.3), Switzerland (2.3), and Hong Kong (2.6). In terms of ytd performance rankings, the 16.4% gain for the US MSCI index ranks as the third worst country performer and trails the 25.6% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EM Latin America leads with a gain of 46.9%, followed by EMU (32.3), EM (27.1), Europe (27.1), EM Asia (26.3), and the AC World ex-US. EMEA is the worst ytd performer, albeit with a gain of 21.6%, followed by

EAFE (24.3). Korea is the best ytd performer, with a gain of 74.7%, followed by Spain (65.9), South Africa (58.4), Mexico (45.8), and Brazil (45.0). The worst performing countries ytd: India (3.5), Australia (7.2), the US (16.4), Japan (21.6), and France (23.2).

US Stock Indexes ([link](#)): All of the 48 major US stock indexes that we follow rose during the week ended November 28, compared to all 48 falling a week earlier. The Russell 2000 Growth index was the best performer for the week, with a gain of 6.3%, ahead of S&P 600 SmallCap Pure Value (5.8%), Russell 2000 (5.5), Nasdaq 100 (4.9), Nasdaq Composite (4.9), and Nasdaq Industrials (4.9). The Dow Jones 15 Utilities index was the worst performer, albeit with a gain of 2.0%, followed by S&P 100 Equal Weighted (2.8), S&P 500 LargeCap Value (3.0), S&P 500 LargeCap Equal Weighted (3.0), and Dow Jones 65 Composite (3.1). All 48 indexes are now higher ytd. With a gain of 21.7%, the S&P 500 LargeCap Growth index remains in the top spot as the best performer so far in 2025, ahead of Nasdaq 100 (21.0), Nasdaq Composite (21.0), and S&P 100 MegaCap (19.0). The worst performing major US stock indexes ytd: S&P 600 SmallCap Equal Weighted (2.6), S&P 600 SmallCap Value (4.0), Dow Jones 20 Transports (4.3), S&P 600 SmallCap (4.5), and S&P 600 SmallCap Growth (5.2).

S&P 500 Sectors Performance ([link](#)): All 11 S&P 500 sectors rose during the week ended November 28, but only three were ahead of the S&P 500's 3.7% gain. That compares to three S&P 500 sectors rising a week earlier, when eight were ahead of the S&P 500's 1.9% decline. The outperformers last week: Communication Services (5.9%), Consumer Discretionary (5.3), and Information Technology (4.3). The underperformers last week: Energy (1.0), Consumer Staples (1.7), Real Estate (1.8), Health Care (1.9), Industrials (2.7), Utilities (2.8), Financials (3.2), and Materials (3.3). The S&P 500 is now up 16.4% ytd, with all 11 sectors positive ytd and three are ahead of the index. During the June 20 week, Consumer Discretionary and Health Care were trailing so far behind ytd that they were the only sectors trailing the index. Communication Services remains the best ytd performer with a gain of 33.8%, followed by Information Technology (23.7) and Utilities (19.0). These eight sectors are lagging the S&P 500 so far in 2025: Real Estate (2.5), Consumer Staples (3.3), Consumer Discretionary (4.6), Energy (4.9), Materials (6.3), Financials (10.1), Health Care (14.3), and Industrials (16.4).

US Economic Indicators

Durable Goods Orders & Shipments ([link](#)): Durable goods orders rose 0.5% in September, above the consensus estimate of a 0.3% gain, following August's upwardly

revised 3.0% jump. Orders were up for electrical equipment, appliances & computers and primary metals, which increased 1.5% and 1.4%, respectively, while orders for fabricated metals and computer and electronic products both rose 0.5% during the month. Orders for motor vehicles increased 0.4%, the weakest performance since April's decline. Civilian aircraft orders posted the sole decline in September's report, sinking 6.1% after jumping 20.2% in August. Orders for defense aircraft soared 30.9% following August's 48.3% surge. Nondefense capital goods orders ex aircraft—a proxy for business spending—climbed 0.9%, building on August's 0.9% gain, while shipments of core capital goods—used in the calculation of the GDP component of business equipment spending—also increased 0.9% in September, remaining on a steep uptrend.

Global Economic Indicators

Eurozone Economic Sentiment Indicators ([link](#)): Economic sentiment was broadly stable in both the EU and Eurozone in November, with both edging up +0.2 points—to 96.8 and 97.0, respectively—and both measures remaining below their long-term average of 100. ESIs among the six largest EU economies were mostly higher, with four increasing during November and two decreasing. Moving higher were ESIs for Spain (+2.0 points to 105.9), Italy (+1.1 to 101.8), France (+0.8 to 95.4), and Poland (+0.5 to 99.0), while Germany (-0.3 to 91.3) and the Netherlands (-0.3 to 100.0) both moved slightly lower. By sector, ESIs moved higher for services (+1.4 to 6.3), construction (+1.3 to -3.3), and retail trade (+1.1 to -4.0), while industry (-0.7 to -9.8) confidence fell and consumer confidence (-0.1 to -13.6) barely budged.

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