

# Center for American Progress



## **Despite Strong Growth, Middle-Class Squeeze** Continues Amid Higher Prices

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In the first quarter of 2006, the economy grew by 5.6 percent — the highest growth rate in two-and-a-half years. America’s middle class families, however, are not benefiting from this strong economic expansion. They continue to devote an increasing share of their income to typical middle-class items, such as housing, transportation, health care, and their kids’ college education.

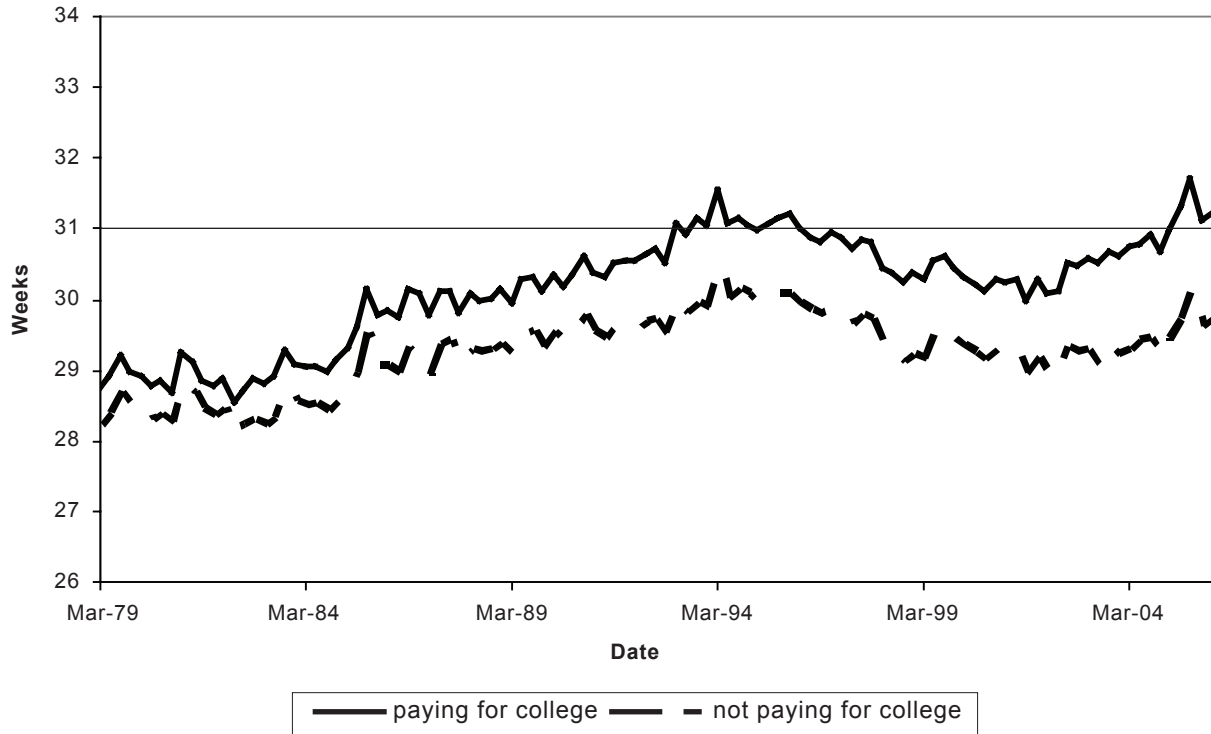
A period of strong economic growth should provide much-needed relief. More jobs and higher wages should help middle-class families who feel the squeeze of stagnant wages and rising prices. Yet, as the numbers from the first quarter of 2006 indicate, this squeeze continues to tighten. Wages failed to keep pace with prices and the share of income dedicated to transportation grew.

The costs of typical middle-class items continue to rise faster than prices. Cases in point: from the start of this business cycle in March 2001 to March 2006 college tuition grew by 45.0 percent; gasoline prices — a critical part of transportation costs — rose by 67.5 percent; and prices in general grew by 13.5 percent. In the first quarter of 2006, prices in general rose on an annualized basis by 4.2 percent from December 2005 to March 2006, while tuition costs increased by 6.5 percent and gasoline prices grew by 36.3 percent.

At the same time, middle-class families’ incomes have been flat or declining in inflation- adjusted terms. Inflation-adjusted weekly wages in March 2006 were actually below those recorded at the start of the most recent economic recession in March 2001. And the average inflation adjusted weekly wage in the first quarter of 2006 was below that of the fourth quarter of 2005.

As a result, middle class families in the first quarter of this year had to work longer hours to maintain a middle-class lifestyle than at the end of 2005 — a trend that started in the second half of 2001 amid the last recession. In the first quarter of 2006, a typical two-earner, middle-class couple had to work 31.2 weeks to pay for housing, medical care, and transportation and to save for their kids’ college education (See figure 1). That’s an annualized increase in the middle-class squeeze by 1.3 percent in just one quarter. Today’s growing economy should ease this tightening, not slowly tighten it further.

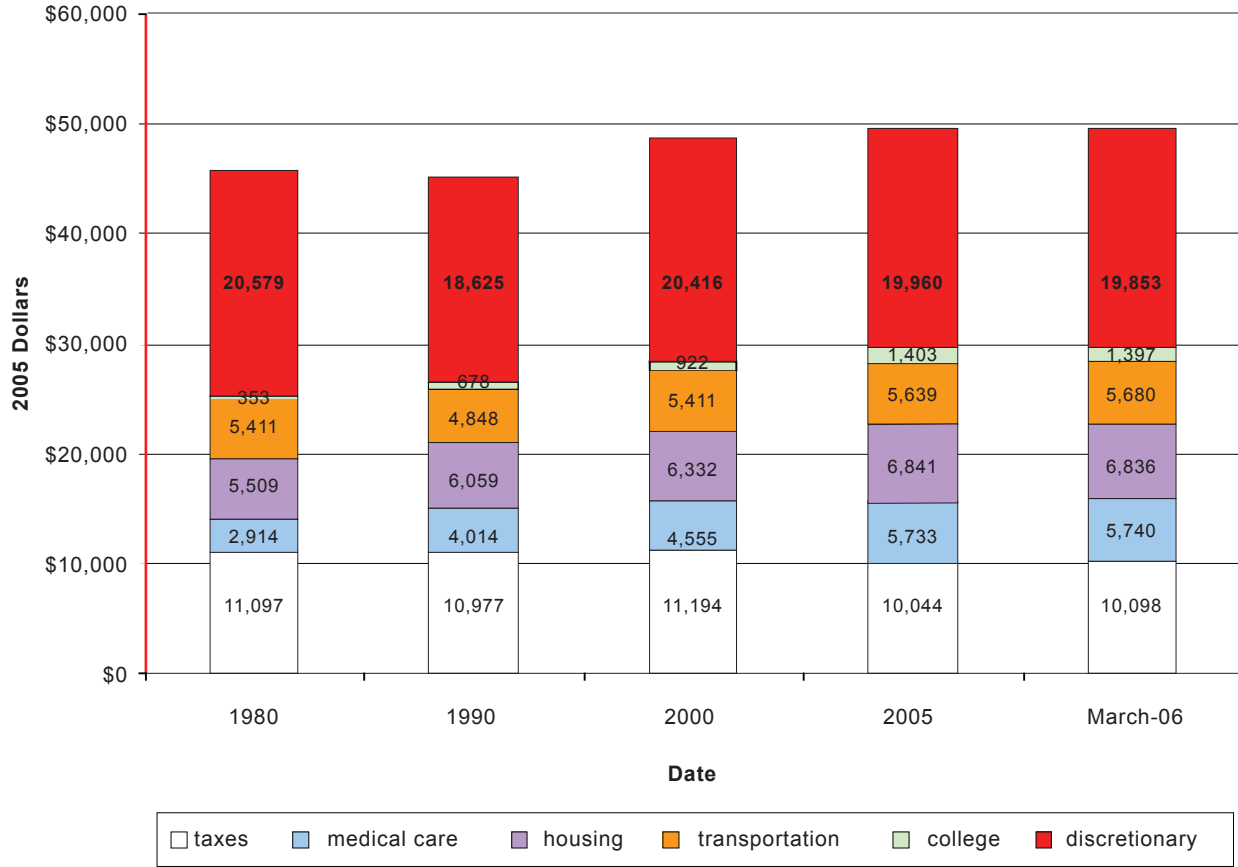
**Figure 1: Weeks Needed by Two-Earner Couple to pay for Housing, Medical Care, Transportation, and College Education**



Notes: Details of underlying calculation can be found in C. Weller, *Middle Class Progress?*, CAP Economic Policy Report, Washington, D.C.: Center for American Progress, October 2005.

A two-earner couple had \$19,853 (in 2005 dollars) in disposable income in early 2006 after paying for the basics, such as health care, transportation, housing and college. Thus, they had less than at the end of 2005, as well as less than in 2000, the last year before the most recent recession (See figure 2). On an annualized basis, a two-earner couple lost \$107 dollars (in 2005 dollars), or an annualized 2.1 percent, in terms of funds left for discretionary spending over the course of the first three months of 2006. This decline in inflation adjusted discretionary funds comes at a time when most expenditures stabilized.

**Figure 2: Expenditures by Typical 2-Earner Couple (in 2005 Dollars)**



Notes: All figures are in 2005 dollars. Details of underlying calculation can be found in C. Weller, Middle Class Progress?, CAP Economic Policy Report, Washington, D.C.: Center for American Progress, October 2005.

The primary driver of the middle class squeeze in early 2006 was an increase in oil prices. Higher prices lowered inflation-adjusted wages in the first quarter of 2006 below the level of the last quarter of 2005. And transportation spending grew by \$41 dollars (in 2005 dollars), or an annualized 2.8 percent, faster than spending for other items. The fact that transportation costs outgrew wages is also reflected in the fact that a two-earner, middle-class couple had to work 6.0 weeks to pay for transportation, up from 5.9 weeks at the end of 2005 and from 5.8 weeks at the end of 2000 (table 1).

In the face of rising oil prices, middle class families now must struggle alongside low income families, who spend a disproportionate share of their incomes on gasoline and transportation, and, if recent trends in gasoline prices are any indication, the middle-class squeeze may be tightening further in 2006. Wages have so far not kept pace with prices and transportation costs continue to rise at a rapid rate.

**Table 1**  
**Average Weeks Needed Per Year for Two-Earner Couple to Pay for Specific Items**

Year	Total	Taxes	Housing	Transportation	Health care	College
1979	29.0	12.6	6.2	6.5	3.2	0.4
1980	28.7	12.6	6.2	6.1	3.3	0.4
1981	28.8	12.9	6.4	5.7	3.4	0.4
1982	28.9	12.3	6.5	5.9	3.6	0.6
1983	29.1	12.1	6.5	6.1	3.8	0.5
1984	29.1	12.4	6.5	6.0	3.7	0.5
1985	29.7	12.5	6.7	6.1	3.8	0.7
1986	30.0	12.5	6.9	5.9	3.9	0.8
1987	29.8	12.3	6.9	5.9	4.0	0.7
1988	30.1	12.5	6.9	5.8	4.2	0.7
1989	30.1	12.5	6.9	5.6	4.3	0.8
1990	30.6	12.6	7.0	5.6	4.6	0.8
1991	30.5	12.6	7.1	5.1	4.9	0.9
1992	30.5	12.4	6.9	5.3	5.0	1.0
1993	31.0	12.4	6.9	5.5	5.1	1.1
1994	31.0	12.3	7.0	5.7	5.1	0.9
1995	31.2	12.3	7.0	5.6	5.1	1.1
1996	30.9	12.3	6.9	5.7	5.0	1.0
1997	30.8	12.3	6.8	5.7	4.9	1.1
1998	30.4	12.0	6.8	5.7	4.8	1.1
1999	30.4	12.1	6.8	5.8	4.8	1.0
2000	30.3	11.9	6.7	5.8	4.9	1.0
2001	30.3	11.1	7.1	5.8	5.2	1.1
2002	30.5	10.7	7.2	5.8	5.6	1.2
2003	30.6	10.4	7.2	5.8	5.8	1.4
2004	30.6	10.4	7.1	5.9	5.8	1.5
2005	31.1	10.5	7.2	5.9	6.0	1.5
2006	31.2	10.6	7.2	6.0	6.0	1.5

Notes: All figures are annual averages. All figures are in weeks. Details of underlying calculation can be found in C. Weller, *Middle Class Progress?*, CAP Economic Policy Report, Washington, D.C.: Center for American Progress, October 2005.