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SPOTLIGHT

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Affordability: More than Wages vs. Prices

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Few economic terms are used more frequently today than "affordability." Whether in news headlines or policy discussions, the term is routinely cited. Public discourse on the topic usually centers around the money a typical household has to spend and the price of the goods and services purchased by that household.

Over the past 25 years, the amount earned by a typical household has increased substantially. At the same time, a broad set of goods and services have increased in price by a similar amount.

Economists typically measure the growth in household earnings by measuring the change in median household income, which includes salaries, wages, Social Security, and some government transfers. In 2000, the median household income in Wisconsin was $45,090 per year. By 2024, this figure grew by 83% to $82,560. Preliminary estimates for 2025 show this figure may have grown by 90% since 2000.

The change in the price of various goods is measured by the Bureau of Labor Statistics, most commonly reported as the Consumer Price Index (CPI). Since 2000, the cost of the standard basket of goods and services measured by the CPI has increased by almost 87%, meaning the products measured were almost 1.9 times more expensive in 2025 compared to 2000. While the CPI reflects average prices and individual experiences may vary, the figure is the most well-rounded and thorough measure of price changes.

Because these two measures have increased by virtually the same amount since 2000, the usual conclusion would be that the purchasing power of the typical household has changed little during this period. If that is the case, why is "affordability" one of the most frequently cited economic concerns in public discourse?

A common interpretation of the data assumes price changes affect all parts of a household budget evenly and that households can easily adapt their budgets as prices change. In reality, much of a typical household's budget is tied up in goods and services that are difficult to reduce, substitute, or eliminate, such as housing, transportation, health care, and education.

Affordability, in this context, is not simply a question of wages keeping up with, or even outpacing inflation. Instead, it is the ability of a household to purchase goods and services without compromising the ability to meet other essential needs.

When something is unaffordable, it reflects more than just an increase in price relative to income. In practice, unaffordability forces households to spend down their savings, take on debt, reduce spending in other areas, or forgo goods and services altogether.

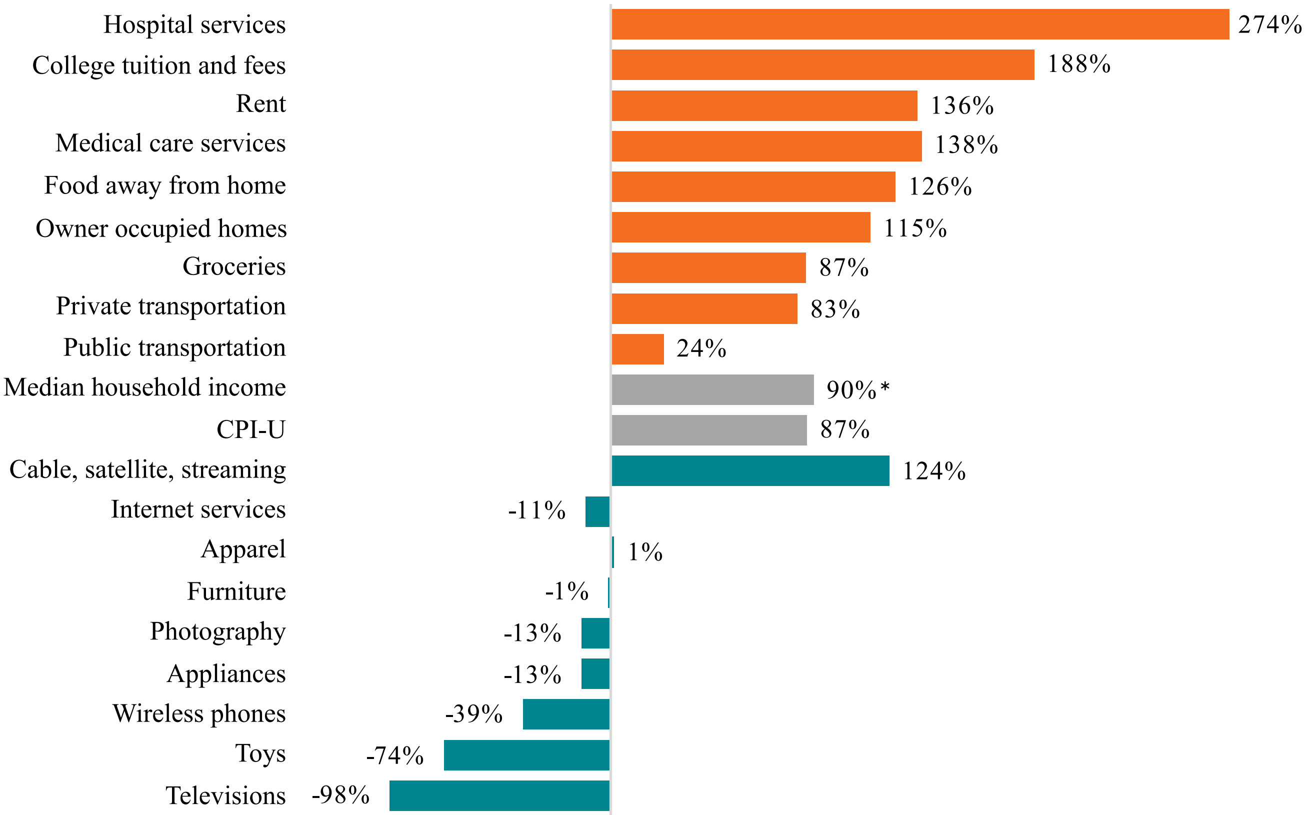
If affordability depends on whether households can absorb higher essential costs, then average price growth is an incomplete measure. What matters is not just the overall growth in prices, but which categories are driving those increases and the ability of household spending to adapt to such changes. As such, the remainder of this Spotlight examines the costs of essential goods and services separately from those that may be considered discretionary.

ESSENTIAL COSTS

"Essential" goods and services are products without which an individual could not fully participate in the job market or society in general. Put another way, these goods and services are difficult to substitute and they account for an unavoidable share of household budgets. They are also less predictable and less deferrable. These can include hospital services, medical care, food, housing, college tuition, and transportation. Prices for most essential goods and services outpaced the 87% growth in inflation and increased more than the 90% growth in median household income.

Figure 1: Prices of Essential Goods and Services Outpace Discretionary

Increase in prices of Essentials (Orange), Discretionary/Nonessential (Teal) CPI-U and Median WI Household Income (Grey), 2000-2025



*2025 data based on preliminary estimates

Since 2000, medical care services have increased by over 138%. This is the BLS category that measures prices paid for health care services, including doctor visits and nursing homes. Hospital services, which includes inpatient and outpatient care, increased by 274% during this time period. These figures do not necessarily reflect out-of-pocket costs, but even costs paid by insurers filter down to consumers.

Grocery prices have increased by 87%, which is around the same rate as inflation over this period. An important note about "food at home" as measured by BLS is that the figure does not reflect the true magnitude of substitution (for example, switching to a store brand product that is cheaper). More significantly, prices for "food away from home," which measures, in part, restaurants and food delivery services, increased by almost 126% from 2000 through 2025. One contributing factor can be food producers and manufacturers utilizing economies of scale that may keep grocery prices relatively low. Restaurants and food delivery service prices are driven in large part by the increasing cost of labor.

Housing costs have risen as well. Prices for owner occupied homes have increased by 115% while the price of rent has increased an average of nearly 136%. These prices are relatively inflexible, meaning that locked-in mortgages reduce the impact to existing homeowners, but new buyers and renters may bear the brunt of such price increases.

College tuition and fees, a consistent cause of financial strain for younger Wisconsinites, have increased an average of 188% since 2000. This increase represents the cost of tuition and fees but excludes financial aids, scholarships, and room and board.

Transportation expenses can be measured in various ways. Private transportation, which measures the cost of owning a new or used car, motor fuel, and maintenance, has increased by 83% since 2000. Public transportation measures the prices of taxis, subways, buses, air travel, etc. These costs have risen by just 24% during the same time period.

As essential costs rise faster than median household income, they consume more of household budgets and leave less room for additional expenses. Since these essential costs cannot easily be substituted, reduced, or eliminated, they consume the first part of a household budget. The remainder is what is left for discretionary spending.

A common critique of any discussion surrounding affordability is that households spend too much on discretionary goods. To evaluate this claim, the next section examines the change in the cost of several discretionary goods and services.

DISCRETIONARY SPENDING

Discretionary goods and services are those that can more easily be reduced, substituted, or eliminated without causing members of a household to lose access to basic necessities. Such goods can include televisions, cellphone services, computer software and video games, toys, and household appliances and furnishings.

There are various goods that at one point could have been considered discretionary, but now may be essential. For example, in 2026 mobile phones can certainly be considered essential. Yet, they are included here because more expensive phones can be substituted for much less expensive models. Another example is transportation. A new car can be significantly more expensive than a used car. While in many cases, a vehicle is a necessary and essential good, the wide difference in price between a new and used car allows the good to be discussed alongside other forms of discretionary spending.

Electronic goods decreased in overall prices significantly over the past 25 years. Televisions declined by 98% in price after accounting for quality improvements. The price of wireless phones declined by 39%. Prices for toys and appliances dropped by 74% and 13% respectively. Such a substantial decrease in prices reflects more manufacturers and producers entering the market, increasing competition for better and more refined products, and innovations in the electronics industry. On the other hand, cable, satellite, and live streaming services have increased by 124% during the same time period.

These price changes are illustrated in figure 1. The divergence between essential and discretionary goods is evident. Taken together, these changes shed some light on why households feel that their purchasing power has declined. Discretionary goods are cheaper as households are earning more money than previously. But the savings in discretionary spending are often insufficient to offset increases in essential goods and services such healthcare and hospital services.

Households can try to adapt their budgets to accommodate the increased cost of essential goods by reducing spending in nonessential categories, but discretionary goods cannot be reduced or eliminated entirely. Affordability is not about whether households can still buy televisions and smartphones. It's more about what is left after essential goods and services consume an ever-increasing portion of household budgets.

Comparing median household income to the CPI on the surface shows little change in affordability over the past 25 years. On the other hand, digging deeper and comparing median household income to the price changes of essential and discretionary goods and services shows that household budgets have changed substantially.