

A Note on the Affordability Crisis and the Electricity Prices

Summary

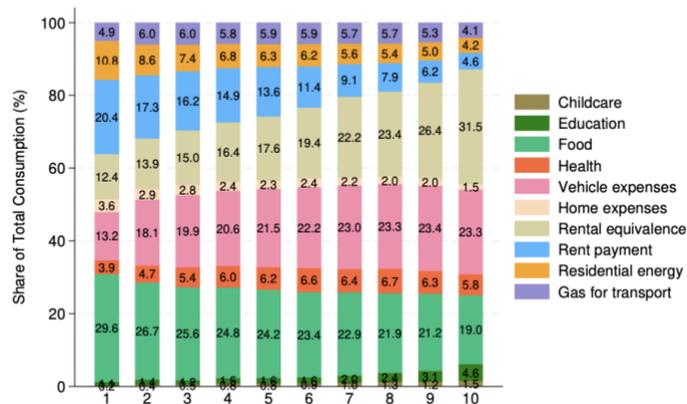
Much has been written about the Affordability Crisis and the rising cost of living that is placing pressure on household balance sheets. At the same time, there has been a substantial increase in electricity prices that has been caused by rising demand for power as well as supply side investments by the utility industry to upgrade electricity transmission infrastructure. This note examines the relationship between electricity prices and US household incomes. The materiality of electricity costs to consumer spending is assessed and the benefits to household expenses of reducing electricity unit pricing is evaluated.

Affordability

Inflation and consequent high costs of daily living have set off what economists characterize as the "Affordability Crisis". Price increases have been experienced across industry sectors due to economic demand and supply side constraints arising from tariff policies, low housing inventories, consumer spending and inflation expectations. The upward trend in prices is expected to continue through early 2026, with core PCE inflation rate central tendency ranging from 2.4 to 2.6 percent.¹ (It is noted that uncertainty in the forecasts of the FOMC are weighted to the upside.)

Low- and middle-income households spend proportionately more of their incomes on necessities including food, rent, transportation and residential energy than other income groups.²

FIGURE 1: HOUSEHOLDS' EXPENDITURE BY INCOME DECILE, 1999-2021



Electricity expenditures for the top 20% of income cohorts were about 5% in 2023; however, for the lowest income earners electricity expenditures were more than 10% of total consumption spending. While the overall percentage contribution of electricity to consumption expenditures is relatively low (~2%), higher electricity

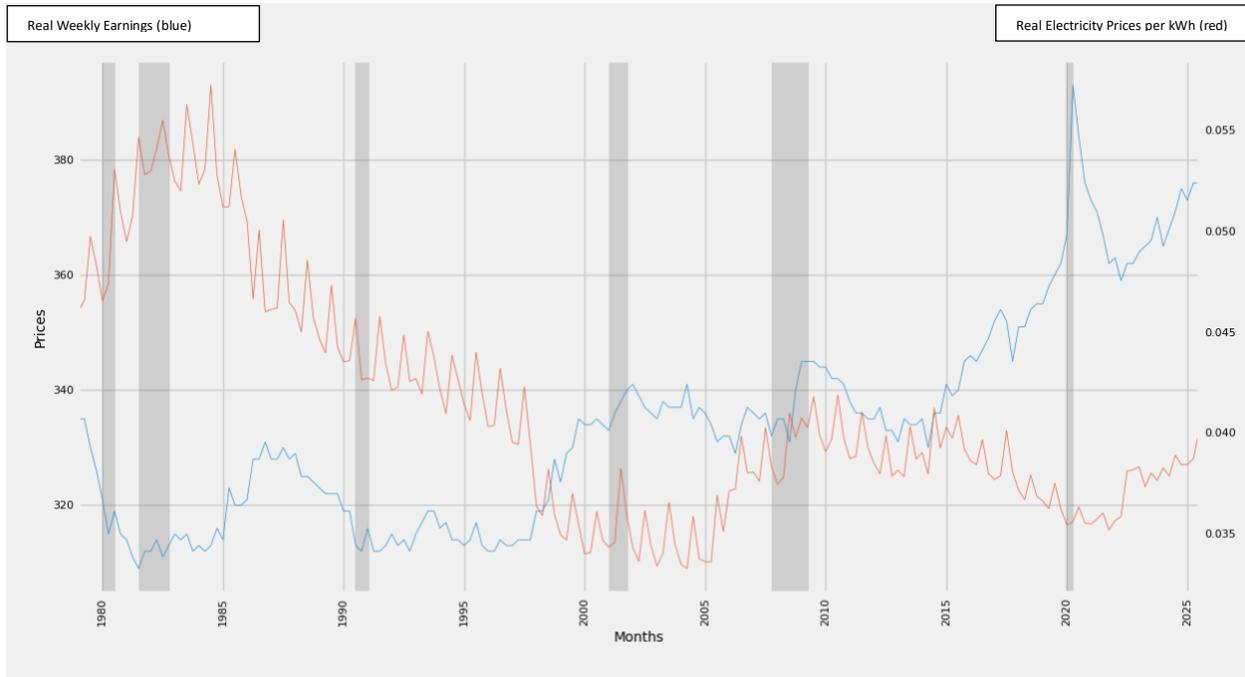
¹ Summary of Economic Projections, FOMC of the Federal Reserve, December 10, 2025, <https://www.federalreserve.gov/monetarypolicy/files/fomcprojt20251210.pdf>

² Energy Consumption and Inequality in the U.S.: Who are the Energy Burdened?, Federal Reserve, 2025, <https://www.federalreserve.gov/econres/feds/files/2025026pap.pdf>. Residential energy consumption includes electricity, gas and other fuel for home use.

prices may be passed on to households through pricing of goods and services and indirectly impact expenditures.

Electricity Prices and Household Wages

In recent quarters, wage growth has not kept pace with rising electricity prices. After adjusting for inflation, real weekly earnings grew just 2.5% from January 2020 through July 2025. Real electricity prices increased 12.1% during the same period.³ This is after accounting for massive Pandemic fiscal stimulus checks to households that boosted weekly earnings in early 2020.



N.B.: Grey shaded time periods represent periods of economic contraction based on NBER dating.⁴

Electricity Pricing Impacts to Retail Consumers

Retail customers nation-wide pay higher average prices in \$ per million Btu than commercial customers.⁵ While utilities and state governments have negotiated rate cuts to provide consumers and small businesses with utility bill relief, commercial customers overall benefit from volume discount pricing.

In 2022, the average annual amount of electricity sold to (purchased by) a U.S. residential electric-utility customer was 10,791 kilowatt-hours (kWh), an average of about 899 kWh per month.⁶ Based on average unit pricing per kWh of \$16.48 in 2024,⁷ total costs for US households on average amounted to \$1,778 per

³ Data Sources: Average Price: Electricity per Kilowatt-Hour in U.S. City Average, U.S. Dollars, Monthly, Not Seasonally Adjusted. Consumer Price Index for All Urban Consumers: All Items in U.S. City Average, Index 1982-1984=100, Monthly, Seasonally Adjusted. Employed full time: Median usual weekly real earnings: Wage and salary workers: 16 years and over, 1982-84 CPI Adjusted Dollars, Quarterly, Seasonally Adjusted.

⁴ NBER Economic Cycle dating, <https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions>

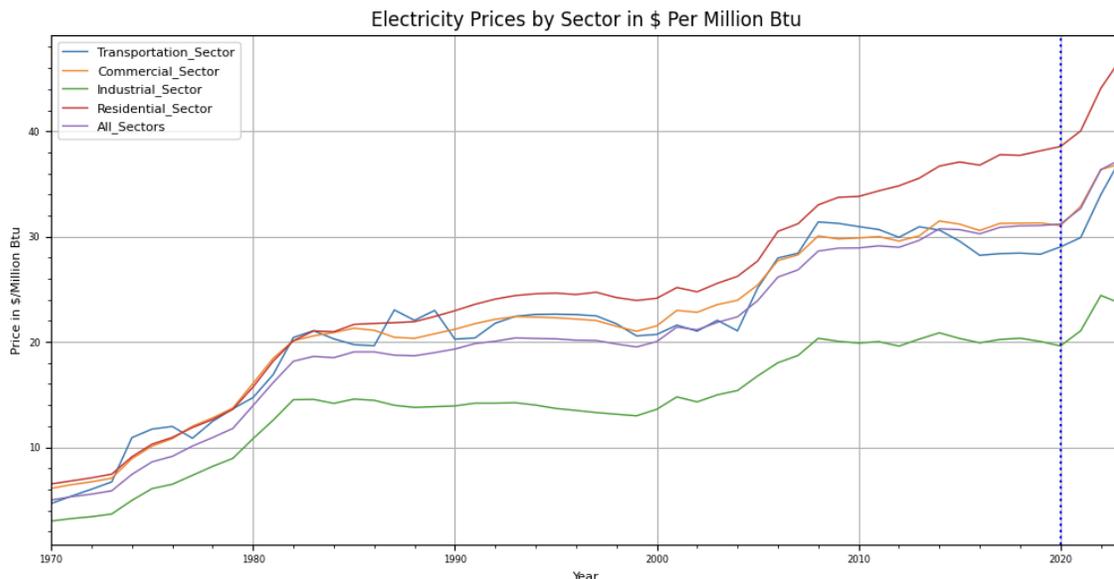
⁵ US Energy Information Administration

⁶ <https://www.eia.gov/tools/faqs/faq.php?id=97&t=3>

⁷ Electricity Prices per kWh by sector, https://www.eia.gov/electricity/annual/table.php?t=epa_02_07.html

year:⁸ Under commercial pricing, where unit prices were \$12.75 per kWh, retail customers would have paid \$1,376 per year. Closing the gap in pricing would yield an over 20% reduction in electric bills annually.

Electricity prices have also increased more for the Retail sector than for the Commercial and Industrial sectors. Between 2020 and 2023, the latest date for which data are available, Residential prices increased 21.6% versus 18.9%.



US median household incomes were \$83,730 in 2024, while the average income of the lowest decile of households was \$19,470.⁹ There are substantially greater benefits to reducing electricity bills for low wage earners. For example, a \$400 per year price reduction would lower household expenses on average by about 2%.

Contribution to Systemic Risk

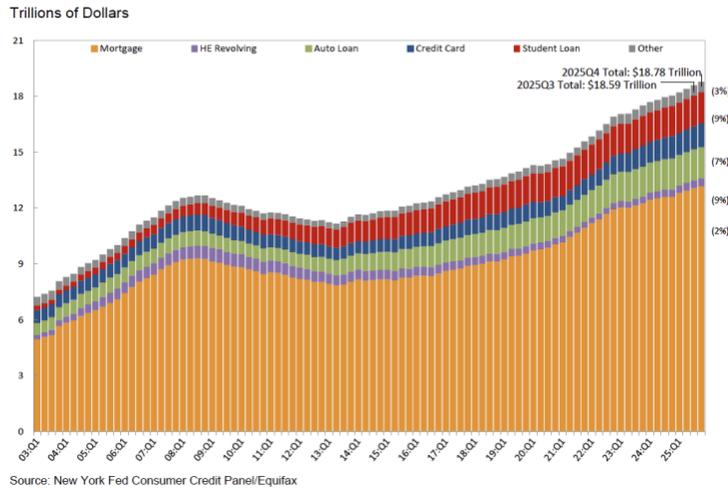
Affordability is driven by several factors in addition to electricity including housing, health care, food, and transportation. When growth in household incomes does not keep pace with costs, debt increases and some households fall behind in servicing debt. Debt levels of US Households have continued to rise post-Pandemic.¹⁰ In recent quarters, delinquencies across all loan types have ticked up signaling stress to household balance sheets.

⁸ https://www.eia.gov/electricity/sales_revenue_price/pdf/table_6.pdf

⁹ <https://www.census.gov/library/publications/2025/demo/p60-286.html>

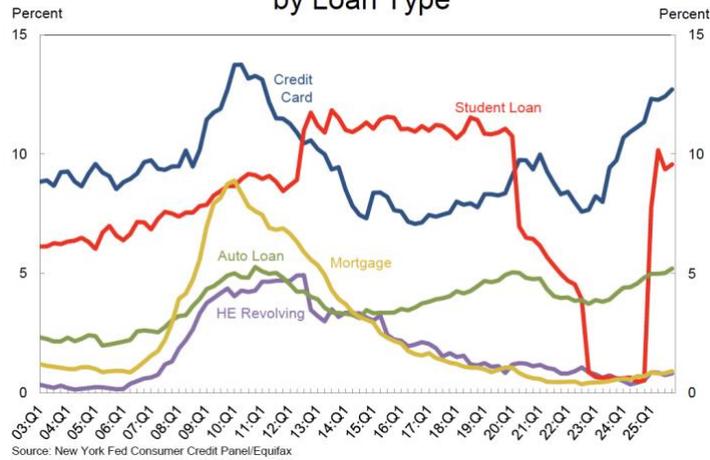
¹⁰ Quarterly Report on Household Debt and Credit 2025: Q4 (Released February 2026), Federal Reserve Bank of New York Research and Statistics Group

Total Debt Balance and its Composition



Recent trends show that the Affordability Crisis is contributing to increased Credit Risk. Continuation of these trends may cause systemic stress through tightening of underwriting standards, which in turn impact consumer spending.

Percent of Balance 90+ Days Delinquent by Loan Type



Conclusions

Electricity costs alone are not shown as a major driver of household stress but may be thought of as a contributing factor to rising delinquent payments, particularly for low-income households. The current pricing structure of utilities favors commercial and industrial users, placing a greater burden on retail customers for the energy transition and demand-driven price increases. Household wages are not keeping pace with rapid growth in energy prices, highlighting the potential for the expense risks to increase over time.