



Looking for a raise? Good luck with that

BUSINESS NEWS

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Jobs are getting easier to find. A raise? Not so much

Here's another sad truth of the "new normal" after the Great Recession: Wages have flatlined and are unlikely to revive even though the job market is improving.

Five years after the one of the worst recessions on record left millions of Americans unemployed, the job market continues to show painfully slow improvement. There will be more evidence of that Friday, when the government reports the latest monthly numbers for August; forecasters expect to see another 200,000 jobs added to the nation's payrolls.

As more Americans get back to work, the wages included in their new paychecks aren't keeping pace with an expanding job market, however, forcing tens of millions of households to tighten their belts.

That could spell trouble for a U.S. economy heavily dependent on consumer spending and already struggling to grow at more than the rate of inflation and population growth.

"Prospects for a pickup in economic growth in the third quarter hinge on a broad-based acceleration in spending by households and business to offset the ongoing drag from government," said James Marple, senior economist at TD Economics. "The data for the first month of the quarter are not following this script."

Some economists believe the pressure on paychecks and spending may be a semi-permanent condition of the post-recession labor market. As demographic trends underlying the current income drop drag on, the income squeeze could deepen, according to two Cornell University economists. They estimate the median income of the average American will shrink by about a half percent a year over the next two decades.

"The average American is increasingly going to be black, Hispanic and older," said Richard Burkhauser, one of the authors of [the study](#). "Unless (these groups) earn considerably more than has been the case in previous decades, the average American's household income is likely to fall.

The latest evidence of stalled wage gains came in the government's monthly data on household income and spending, which showed overall wages and salaries tumbled \$21.8 billion from June. (A third of the drop came from furloughs of federal workers.) The drop was offset by gains from households with income from investments like stocks and rental real estate.

The July numbers extended a string of stalled growth in wages and salaries not seen in most modern economic recoveries.

One big reason workers' paychecks aren't rising is that many employers don't need to boost wages to fill open jobs. With the unemployment rate still high and millions of part-time workers looking for a full time job, most applicants have little bargaining power. Employers have also been chipping away at paid vacation and sick leave, according to government data.

(Read more: [Paid vacations decline](#))

Many of the recent job gains have come in relatively low wage industries. Roughly half of last July's new hiring was in the retail and hospitality industries.

The pressure on paychecks has dampened consumer spending, which has been rising by less than one percent so far this year, or about the pace of population growth. Because consumer purchases account for about 70 percent of the U.S. economy, the tepid pace of household spending could pose a serious threat to an already weak recovery.

"With worker pay stagnant, why are so many surprised that consumer spending is going nowhere?" asked economist Joel Naroff at Naroff Economic Advisors in a recent note to clients. "How can consumers lead the way if they don't have the means to purchase more goods? They cannot."

To be sure, there are pockets of strength, as new home buyers step back into the market after a deep, protracted collapse in sales. This year, car dealers have posted some of their strongest months since the Great Recession. On Wednesday, Ford, GM and Chrysler reported double-digit sales gains for August, putting the industry on track for its strongest month since just before the start of the recession in 2007.

But those big ticket purchases may simply divert spending from other categories, according to National Retail Federation CEO Matthew Shay.

"People are making decisions and choices," he told CNBC. "They can spend on some of the things we're seeing, on autos and homes, or they can spend on other places. They're sort of choosing either/or."

Hard choices have dampened the back-to-school shopping season this year. Families with school-age children told an NRF survey they planned to spend less on clothing, school supplies and electronics, and some 80 percent said they were spending cautiously because of the sluggish economy.

Major retailers from Wal-Mart to Macys are already warning that the slower spending pace will extend into the second half of the year.

*(Read more: **Wal-Mart sales slip, outlook 'cautious'**)*

There are also signs the strong rebound in housing may be tapering, following an increase in borrowing rates. In July, consumers cut spending on big-ticket items like appliances, according to the government's latest data.

Tepid wages aren't the only thing keeping American consumers from opening up their wallets more freely. Many are still having a hard time getting credit after a borrowing binge in the mid-2000s left them deep in hock or with badly damaged credit scores.

With the exception of car loans, secured by a repossessable vehicle, lenders have been skittish about extending more credit. And many households are still working to pare down debt. Credit card lending is rising by about 1 percent—again, roughly the pace of population growth.

Instead of borrowing, households that lost ground to the Great Recession have been propping up spending by dipping into savings, cutting the savings rate to 4.3 percent during the first half of this year from 5.5 percent during the first six months of 2012.

To be sure, some American households are feeling wealthier, thanks to recent gains in the stock and housing markets. But while total household wealth has recovered from the large hole blasted into American savings by the 2008 financial collapse, those gains have further concentrated assets at the top of the wealth pile.

Those who don't own stocks haven't been helped by the market's rebound. Many middle class families with their life savings tied up in their home were wiped out when they lost it to foreclosure. The borrowing binge of the mid-2000s, fueled in part by paltry wage gains following the 2001 recession, helped amplify the concentration of wealth, according to [a recent study](#) by New York University economist Edward Wolff.

"The high debt levels of the middle class in 2007 created a 'leverage' effect, causing their net worth to drop twice as much in percentage terms as housing prices," Wolff observed.

After getting hit much harder during the [Great Recession](#) than the wealthiest households, middle class wage earners have recovered much more slowly. During the first two years of the economic recovery, the net worth of the top 20 percent rose by 28 percent to \$25.4 trillion, according to the Pew Research Center. The net worth of the bottom 93 percent saw their net worth fall by 4 percent to \$14.8 trillion.

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