THE HUFFINGTON POST

As Real Wages Fall In Fourth Quarter, Americans Save Less

By Bonnie Kavoussi
January 27, 2012

At a time that the U.S. economy is struggling to pick up steam, Americans are struggling just to keep up.

Over the last three months of last year, income growth stagnated and people across the country dug deeper into their savings than they have in years, according to data released Friday by the Bureau of Economic Analysis. That's despite a pickup in the overall growth of the economy.

The 2.8 percent annual growth rate achieved by the U.S. economy in the fourth quarter of 2011 isn't indicative of a sustainable trend, according to economists. It's instead an anomaly, a result of companies spending more on inventory to make up for cutbacks in the previous quarter, when fears of a double-dip recession ran high.

That temporary growth spurt didn't translate into gains for Americans, as wages failed to keep up with rising prices, pushing Americans to draw on more of their savings than at any point since the end of 2007.

Since consumer spending makes up 70 percent of the U.S. economy, the shaky footing of many American households does not bode well for a broader recovery, economists said.

"The economy in many ways is running on fumes, and there's just not a lot of fuel left in the tank," said Mark Vitner, senior economist at Wells Fargo Securities.

On the whole, wages for workers aren't keeping up with the inflation rate, causing them to fork out more just to afford the basics. Median weekly wages rose just 1.6 percent in the fourth quarter over that quarter in 2010. In contrast, prices rose 3.3 percent, according to the Bureau of Labor Statistics. As a result, consumers dipped more into their savings: The annual personal saving rate plunged 29 percent in the fourth quarter (compared with that stretch of 2010), to 3.7 percent. This is the lowest saving rate since 2007's fourth quarter, according to the Bureau of Economic Analysis.

Spending failed to keep up with the production of goods at the end of 2011 because most newly created jobs paid close to the minimum wage, Vitner said. Seventy-seven percent of the jobs created since the end of the recession are in the low-paying sectors of retail, leisure and hospitality, home health care and temporary staffing, according to Vitner. With credit still tight and wages falling (once adjusted for inflation), Americans aren't boosting their spending, he said.

The millions of unemployed job seekers have put further downward pressure on low-paying wages.

"It is still an employer's market," said Jennifer Lee, senior economist at BMO Capital markets. "There are so many people they can pick from, they don't have to succumb to wage demands."

Even the small share of workers who are in unions saw their wages fall in 2011 when adjusted for inflation, according to the Bureau of Labor Statistics. "No one has the leverage to negotiate for higher pay," said **Bernard Baumohl, chief global economist at the Economic Outlook Group.**

"The big winners from the expansion so far are corporate profits," said Nigel Gault, chief U.S. economist at IHS Global Insight. Corporate profits spiked 7.5 percent in the third quarter of 2011 when compared with that period in 2010, according to the Bureau of Economic Analysis.

Consumers are still in a weak position. Holiday spending at the end of the year was relatively weak as strapped consumers focused on taking advantage of discounts, said Diane Swonk, chief economist at Mesirow Financial.

Still, the data show that corporations have plenty of money sitting around. "We have a lot of money sitting on the sidelines in the corporate sector, and it is not being redeployed," Swonk said. "You know the saying, 'Water, water, everywhere, and not a drop to drink.'"