

Incomes Seen Stuck Below 2000 Levels

By PHIL IZZO

Americans' incomes have dropped since 2000 and they aren't expected to make up the lost ground before 2021, according to economists in the latest Wall Street Journal forecasting survey.

From 2000 to 2010, median income in the U.S. declined 7% after adjusting for inflation, according to census data. That marks the worst 10-year performance in records going back to 1967. On average, the economists expect inflation-adjusted incomes to rise over the next decade, but the 5% projected gain isn't enough to reach pre-recession levels.

"Standards of living in the U.S. will continue to decline as we deleverage and emerging markets take over as the growth engine of the global economy," said Julia Coronado of BNP Paribas.

Though the majority of the 50 economists surveyed—not all of whom answer every question—say the current generation of college graduates will have a higher standard of living than their parents, a third of respondents think it will be lower. College graduates have generally fared better in the U.S., and they currently have a 4.2% unemployment rate compared with 9.1% for the entire work force. But a college degree hasn't been enough to ensure wage gains from 2000 through 2010.

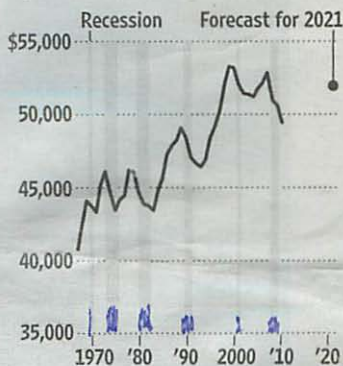
The current generation of college graduates will see a higher standard of living only if "they get graduate degrees and are willing to give up a lot of free time," said Diane Swonk of Mesirow Financial.

Incomes are being held down by high unemployment and tepid economic growth, and the situation isn't expected to improve much in the foreseeable future.

"What might be the locomotive?" asked Edward Leamer of UCLA Anderson Forecast. The typical drivers of economic recoveries haven't been robust. The housing sector remains moribund with home prices expected to be nearly flat next year while construction is stuck at recessionary levels. Manufacturing and consumer spending have improved

Lost Decades

U.S. median household income, adjusted for inflation*



*In constant 2010 dollars

Sources: U.S. Census Bureau and WSJ Survey (forecast)

in the recovery but not at paces that would lead to vigorous expansion. Meanwhile, global concerns could depress export markets.

The economists expect growth for 2011 to be just 1.5%, accelerating to 2.3% next year and 2.7% for 2013. But that slow pace won't be enough to bring down the unemployment rate quickly. On average, those surveyed expect the economy to add just 1.5 million jobs over the next 12 months, barely enough to keep up with population growth. They forecast the jobless rate will be 8.2% at the end of 2013, a decline of less than one percentage point over more than two years.

Those numbers could look even worse if the U.S. falls into a recession. The economists, on average, put nearly 1-in-3 odds of another downturn hitting the U.S. economy in the next 12 months. The uncertain international picture could weigh on U.S. growth. Amid a debt crisis in Europe, the economists put better than 50-50 odds of a recession in the euro zone over the next year.

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