

THE ECONOMIC PLIGHT OF MILLENNIALS



A demographic cohort is never monolithic, but the group that recently entered the labor force had one trait in common: they watched as the Great Recession dramatically reshaped the landscape of employment, housing, and, in general, their expectations. How profoundly will the economic downturn and its associated effects mark this generation?

What shapes a generation? Differences among age groups can be the result of life cycle events (people behave the way they do because of where they are in life), period effects (such as wars, economic downturns, and medical or scientific breakthroughs), or cohort effects (effects from events or trends that occur to a generation during their young adult years but whose effects reverberate for years). These are the factors the Pew Research Center uses to explain differences among age groups.

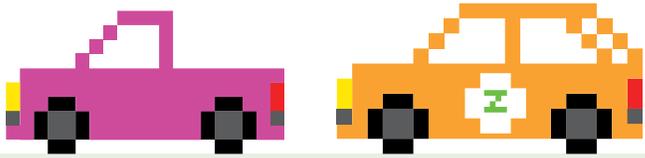
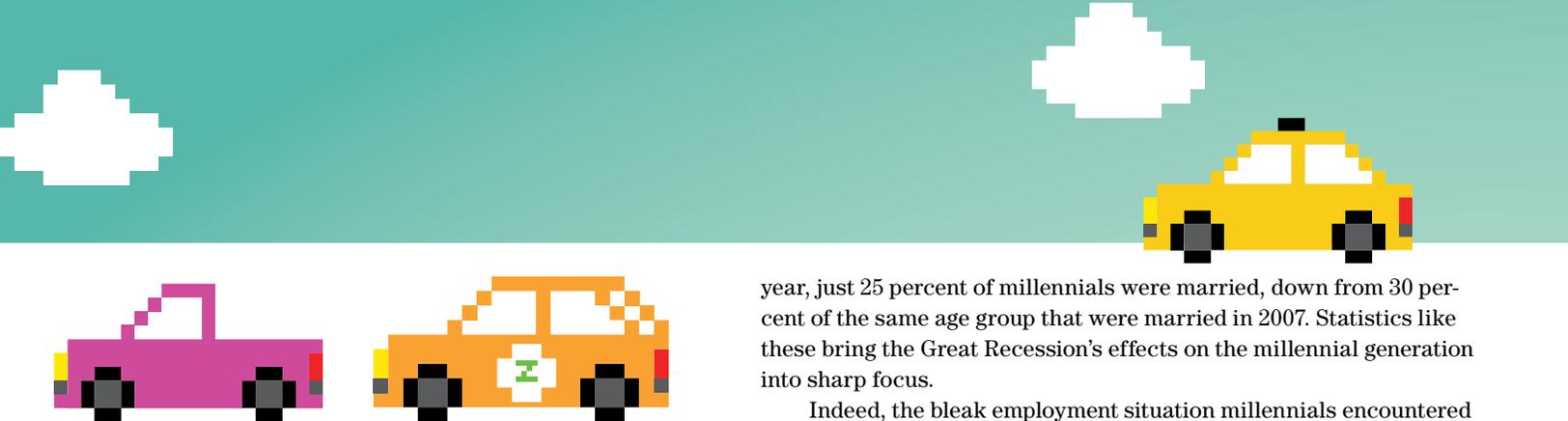
Largely as a result of the Great Recession, the millennial generation—which demographers generally define to include those born after 1980—is marked by each of Pew’s generation-shaping characteristics. Besides sending shockwaves through

the U.S. economy, the Great Recession has reshaped many millennials’ plans and opportunities.

Big decisions deferred

On top of the economic hardships facing the millennials, they show signs of veering from established patterns (see the sidebar on page 8). Whereas the last few preceding generations moved more quickly toward getting married or buying a house, millennials as a group are taking their time on those fronts (for many, out of necessity). In 2012, 36 percent of the nation’s young adults ages 18 to 31 were living in their parents’ home, the largest share in four decades, according to 2013 data from Pew. The same





Millennials' Preferences and Their Effects

As one might expect, millennials exert significant economic sway. The preferences of this cohort have changed along with the changing economic realities. To quote the *Atlantic* magazine, "Since World War II, new cars and suburban houses have powered the economy and propelled economic recoveries. Millennials may have lost interest in both."

Perhaps this loss of interest, though, can be attributed to the tendency of consumers to make increasingly rational decisions in times of elevated economic hardship or uncertainty. The *Atlantic* article goes on to say that the typical new car costs about \$30,000 and sits in a garage or parking lot 23 hours a day. The increased prevalence of Zipcar and similar car-sharing services shows that young consumers are adopting thrifty habits, especially when it's convenient to do so.

Taking note of this trend in car-sharing, Ford Motors has made a notable effort to provide fleet vehicles for Zipcar. The automaker's rationale is that millennials might have no interest in purchasing a car now, but if they do later, they'll be familiar with the brand, increasing the likelihood that today's Zipcar customer will be tomorrow's Ford owner.

In separate reporting on millennials, the *Atlantic* praises millennials for their increased appetites for "smaller houses built in dense, mixed-use neighborhoods," which creates a larger economic multiplier effect while also creating other efficiencies, such as—theoretically, at least—increased funding for school districts. According to the article, "Economists have found that more than half of the variation in output per worker across the U.S. states can be explained by density." ■

year, just 25 percent of millennials were married, down from 30 percent of the same age group that were married in 2007. Statistics like these bring the Great Recession's effects on the millennial generation into sharp focus.

Indeed, the bleak employment situation millennials encountered upon entering the labor force likely hindered household formation rates: they weren't able to rent apartments or furnish and equip their own households in general. Though labor markets today continue their slow rebound from their recession-era lows, the U.S. Bureau of Labor Statistics (BLS) says youth unemployment rates (ages 16–24) remained around 15.5 percent in 2013 and began 2014 at 14.2 percent, roughly twice the rate of overall unemployment. In fact, excluding those under the age of 25, the overall U.S. unemployment rate was only 5.4 percent in January 2014, according to the BLS.

Another statistic from Pew illustrates millennials' straits: in 2012, 63 percent of people ages 18–31 had jobs, down from 70 percent of their same-aged counterparts who had jobs in 2007. Unemployed millennials are much more likely than their employed cohorts to live with their parents.

More skills, more problems?

Even beyond the harsh labor market conditions into which millennials graduated, other distinctive factors have intensified frustrations for this demographic. Millennials view higher education as crucial to enhancing their skills and thus their career prospects, and data strongly support their view: a new Pew survey shows that, on virtually every measure of economic well-being and career attainment (including personal earnings, job satisfaction, and the share employed full-time), young college graduates are outperforming their peers with less education.

However, these skills come with skyrocketing costs even as students under 30 years old are increasingly taking on loans to finance their education. A New York Fed report shows total student loan debt for those under 30 grew from \$144 billion in the first quarter of 2005 to more than \$322 billion in the fourth quarter of 2012. During the same period, the number of people under 30 who borrowed to pay for their education increased from 10.8 million to 15 million.

Overall increased enrollment levels explain, in part at least, the larger number of people borrowing to finance higher education, but student borrowers have taken out much higher amounts: from 2005 to 2012, the average per capita amount of education-related debt that Americans under 30 took on went from about \$13,000 to \$21,000, according to New York Fed data.

In fact, even as every other kind of debt generally decreased throughout the Great Recession, student loan debt was a clear outlier. The total amount of student debt for all age groups went from just shy of \$300 billion in 2004 to just over \$1 trillion by the end of 2012, according to New York Fed data. At no time during that period did student loan balances decrease.

Generally, the Great Recession forced Americans to target and prioritize debts. Credit cards, for instance, received borrowers' pri-



Table 1
Household-Formation Shortfall by Age Group, 2011

Age group	Number of households formed (in millions)	Shortfall (in millions)
18-24	6.0	1.0
25-34	19.6	0.9
35-44	21.3	0.1
45-54	24.5	–
55-64	21.8	0.2
65 and over	25.4	0.5
Total	118.6	2.6

Note: Household formations among the cohort age 45-54 rose by 100,000 in 2011.
 Source: U.S. Census Bureau, Current Population Survey; Atlanta Fed economist Tim Dunne's calculations

many debt-reduction efforts. U.S. credit card debt peaked around the end of 2008 at about \$900 million. By the end of 2012, that balance was comfortably under the \$700 million mark, Fed data show. Auto loan debt also decreased by about \$100 million during the recession. In that same period, students took on about \$150 million more in student loan debt, New York Fed data show.

That New York Fed study shows that the share of 25-year-olds who carry student debt went from 27 percent in 2004 to 43 percent in 2012. Though not in itself necessarily a problem—and in fact could be viewed as young people taking advantage of relatively low-interest financing of a skill-enhancing education—much more troubling is the share of young adults with delinquent balances on their student loan accounts. Of students under 30 who borrowed money to pay for higher education, the share of those accounts that have been delinquent for 90 or more days has doubled from 8 percent in 2004 to 16 percent in 2012. New York Fed data also revealed that hardly anyone ages 25 to 30 who holds a delinquent student loan balance also originates a home loan, one of a number of drags on millennials' particularly low household formation rate.

However, there's a silver lining to the rapidly increasing debt that millennials take on to fund their education. In general, young people with at least a bachelor's degree say that the money was well spent. According to the Pew survey, 72 percent of those ages 25 to 32 with at least a bachelor's degree say that

they have already paid off their college loans. Of the two-thirds of college-educated millennials who borrowed money to pay for their schooling, about 90 percent say their degrees have been worth it—or they expect them to be.

Indeed, because of the rising income disparity between the college-educated and those without degrees, the only thing more expensive than a college education could be not getting one. The Pew Research survey points out a growing and stark difference in wages between college-educated young adults and those without a degree (see the sidebar, "The Case of the Stagnating Wage"). In 2012 dollars, the Pew survey shows millennials with at least a bachelor's degree earn a median income of \$45,500 annually, about \$17,000 more per year than the median \$28,000 income the study associates with those having only a high school degree. In an age when overall median annual earnings have remained relatively flat, millennials have remained mindful that this earnings premium is strongly associated with education.

Millennials and household formation

According to Atlanta Fed economist Timothy Dunne, the rate at which all Americans formed households fell sharply during the Great Recession, as one might expect, given the nature of the downturn. In 2012, Dunne wrote an article for the Cleveland Fed titled "Household Formation and the Great Recession." In it, Dunne showed that the greatest shortfall in household formation during that period occurred with young adults.

Dunne's research, which used Current Population Survey (CPS) data from the U.S. Census Bureau, showed that the total shortfall (relative to historically typical levels) in the number of household formations from 2007 to 2011 was roughly 2.6 million.



The Case of the Stagnating Wage

Millennials make up the best-educated generation in U.S. history, with a little more than a third of those ages 25–32 holding at least a bachelor's degree. By comparison, in 1965, 13 percent of the same age group held degrees. A Pew Research survey on young adults, education, and earnings says that as the share of college graduates has grown, their degrees have also become more valuable: between 1965 and last year, the median annual earnings of college graduates ages 25–32 grew from \$38,833 to \$45,500 in 2012 dollars, a nearly \$7,000 increase.

The combination of more millennials earning degrees and the premium for those degrees increasing might therefore lead you to conclude that they earn considerably more than previous generations of young adults, but overall they don't. The overall median annual earnings of today's millennials (\$35,000) aren't too different from the earnings at comparable ages of the baby boomers (\$34,883) or the generational cohort after them, often referred to as Generation X (\$32,173). ■

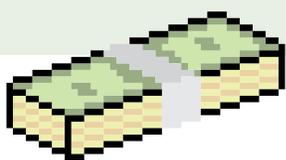


Table 2
Headship Rates for Adults 18 Years and Older

	All age groups	Adults ages 18 to 34
2007	52.0	37.9
2008	51.9	37.4
2009	51.6	36.9
2010	51.2	35.9
2011	51.3	35.8

Note: Data shown are percentages. "Headship" refers to heading a household.
Source: Census Bureau, Current Population Survey; Atlanta Fed economist Tim Dunne's calculations

The largest age group contributing to that shortfall, representing about 1 million fewer household formations than demographers would expect to see, was the 18- to 24-year-old cohort. The second-largest age group contributing to the household-formation shortfall was the 25- to 34-year-old group, which had about 900,000 fewer formations during the Great Recession (see table 1 on page 9). For those two age groups combined, the homeownership rate peaked in 2004 at about 44 percent and plunged to about 37 percent by the end of 2011.

Dunne offers another way to think about the shortfall in household formation: looking at something economists call the "headship rate," which is the probability that a person is the head of a household (see table 2). Of all age groups combined, the headship rate fell from 52 percent in 2007 to 51.3 percent in 2011, a decline of about 0.7 percentage point. For those adults aged 18 to 34, however, the headship rate declined from 37.9 percent to 35.8 percent during the same period, a decline roughly three times the size of the aggregate headship rate. In this period, younger adults faced reduced access to mortgage credit, a weaker overall economy, and increased uncertainty about the housing market.

Finding the silver linings

Although some dark clouds hang over the heads of the millennials, those clouds do reveal some silver linings. The millennials have helped inflate the student debt balloon, but in the process they've become the best-educated cohort in U.S. history. And although median annual wages have largely stagnated, the benefits of a college education are apparent when comparing college-educated millennials with those not possessing a degree.

And when the Atlanta Fed's Dunne looks at young adults' depressed household-formation rates, he believes a strengthening economy will cause millennials to pick up the pace. "Improvements in labor markets should lead to increases in headship rates and an increase in household formation," he said, "and this linkage should hold true for millennials as well." ■

This article was written by Mark Carter, a senior research analyst—and, it should be noted, a millennial—in the Atlanta Fed's research department.

