The Millennials

(The Baby Boomer's Part II)

The Millennial Generation is America's largest demographic group, ever – some 75 million strong. It is defined roughly as the generation born between 1980 and the late 1990s. By the simple mass of their collective numbers they are likely to be the most impactful generation since the Baby Boomers. When the Millennials reach their prime working and spending years, their economic impact will be a game-changer!

As market participants, we know that accurately predicting the specific how, what, or amount of impact Millennials will have on long-term economic outcomes is wishful thinking. However, we know from their parents, the Baby Boomers, that large demographic groups do determine spending and consumption trends. The preferences of the Baby Boomers have long dominated popular music and culture, dictated retail success, enabled political change, and now seem to dominate both health care and Social Security discussions. Thus, as curious individuals, we are compelled to consider the potential economic impacts we are experiencing due to this new demographic group. In the paragraphs below, we will attempt to define the group, make some observations about the formation of their character, and speculate a bit on what economic impact they are having and might continue to have.

Of course, with any group this large and with birth years spreading over two decades we must take care to not stereotype the group. Millennials are not homogeneous. The early millennials, born from 1980 to 1987, remember dial-up internet, using AOL screen names for instant messaging, watching movies on VHS tapes and attending Y2K parties. Generally, they began entering the labor market just in time for the Sept. 11 attacks.

Those born between 1988 and 1999, used technology at an earlier age with Wi-Fi-enabled devices and the arrival of the iPhone during their adolescence. They downloaded music, watched movies on DVDs that arrived in the mail from Netflix and rode to school on their Razor scooters. In fact, here at Locust Capital we have a few of these "late" Millennials on our team and we non-Millennials can attest to their intuitive grasp of all things technology-related. Unfortunately, many of these "late" Millennials also had the unenviable position of trying to launch careers after the housing market crash, when unemployment jumped and hiring stalled.

Whenever their exact entrance to professional employment happened, the working lives of Millennials began amidst the two significant American tragedies of the early 21st century; Sept. 11th and the Great Recession. No part of the demographic group could have been fully prepared for the economic sledgehammer that followed the collapse of the housing market in 2007-08. The aftereffects of starting a career during an economic maelstrom of that magnitude will likely dog them for the rest of their working lives. Furthermore, because of our ever-interconnected economy, whatever initial recession-induced career deficits millennials may have suffered, (such as reduced opportunities and compensation), they are likely dragging these losses with them and that is shaping the American economy.

In the worst economic downturn in 80 years, the "late" Millennials' had to compete with laid-off generation X'ers and Baby Boomers for service jobs. In addition, the "late" Millennials limited set of employment opportunities was often paired with high levels of student debt. The college loans they had committed to as a bet on a post-graduation middle-class life proved to be a poor investment. Effectively, they bet on education with borrowed money and lost, an outcome which can be mentally scarring and likely to influence their desire to take large financial gambles again.

It is this insurmountable student loan debt that is the biggest difference between the spending power of a current 25-year-old Millennial and their Baby Boomer parent at 25. Today, outstanding student loan debt amounts to $1.4 trillion and is growing every day. To put this in perspective, student loans were $200 billion at the beginning of the 21st century and have grown over 6 times in the past 15 years. The average student debt for the graduating class of 2016 surpassed $37,000, more than double where it was in 2000. This debt burden puts financial constraints on Millennials approaching their peak spending years.

By extension, it appears Millennials are putting off ownership of large ticket items in favor of renting and leasing. In addition to student debt, this generation has suffered from anemic wage growth. Recent graduates are seeing stagnant wages and are earning the same $17 per hour as their counterparts 30 years earlier.

On the other hand, the “must-haves” of yesterday are no longer important today. A 2015 study by Goldman Sachs found that 55% of millennials do not intend to purchase a car soon. Instead, they are turning to services that provide access to goods and experiences without the burden of ownership, paving the way for the sharing economy. Millennials currently represent the fastest growing group of travelers and have flocked to Uber and Airbnb for their travel needs. Hotels and rental car companies have already begun to feel the effects and will need to adapt soon before all is lost.

In the past 10 years, we have seen the emergence of the sharing economy, as well as the freelance or “gig” economy. One reason Millennials have embraced freelance work is for the flexibility that traditional careers do not provide. The rapid growth of the freelance economy has encouraged the development of co-working spaces like WeWork. The company, now valued over $17 billion, provides freelancers a space to work and congregate. However, not all workers pursue this by choice and are often subjected to freelancing by economic necessity. Despite being the most educated generation, Millennials have been subject to underemployment over the past 10 years, leading to the rise of freelance and part-time work.

A large difference between Millennials and Baby Boomers is their stance on important social issues. In the past, it was normal to be married, own a home and have a newborn by the age of 25. Nowadays, a typical 25-year-old is single, living with this or her parents, and working a menial job in pursuit of a graduate degree. Millennials are postponing important life decisions such as marriage, a home purchase and children until their 30s, all decisions that have financial implications. The postponement of these large personal financial commitments is the economic act of "deferred consumption." While deferring consumption can be a personally prudent decision relative to borrowing and spending, it does, in practice, starve the economy of near-term growth.

Meanwhile, this is the first generation to have access to social media from high school through their 20s. Outlets like Facebook (FB), Twitter (TWTR) and Instagram have become important mechanisms in the decision-making process. Since everything is reviewed online, America's youth typically won't make an important decision without initially consulting social media or the Internet. As a result, companies have focused on increasing their web presence through effective marketing or social campaigns. A single poor review is enough to inflict significant damage to a brand's reputation.

Depending how you look at it, one could argue there is no better time in history to be a 25-year-old than today. Between smartphones, social media and the Internet, Millennials have all the information they need at a moment's notice. However, it is all not all rainbows and unicorns. Millennials are coming into their peak spending years working menial jobs, living with their parents and saving nothing while trying to reconcile their insurmountable student debt. As these trends continue, we may begin to see demand for big ticket items like houses and cars significantly tail off.

Moreover, advances in modern medicine and the depletion of Social Security has Millennials believing retirement will be closer to 70 than 60, thus either encouraging a "live for today" or "save every dollar for tomorrow" mentality. Of course, if we accept that medical advancements will push this demographic's average life expectance beyond any previous generation, then perhaps, we should not be alarmed about delayed purchases, child-rearing and slow starting careers because lucky for Millennials, they have more time than the rest of us. Naturally, given a longer time horizon, the rate at which Millennials move between major life events should be slower.

Ultimately, the economic impact and the true elements that characterize Millennials are impossible to declare, but, so far, Millennials and the technological revolution have sent shockwaves through the global economy and will continue to do so.

Sincerely,

Your Friends at Locust Capital