



THEMATIC INSIGHT

How Millennials Consume

Character Trait or Economic Reaction?



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Who are the Millennials?

Many a facetious label has been pinned on the generation born between 1981 and 1996, a cohort between 25 and 40 years old today known as the Millennials: *The “lost” generation, broke, indebted, living off their parents, commitment-phobic, and brand-name-obsessed.*

How real are these derogatory labels? And for the ones that hold true, do they reflect character traits or are they rational economic responses to the environment that Millennials face? If character traits and generational preferences, Millennials could carry current habits into retirement and old age.

However, looking at the data with some careful analysis suggests that the choices Millennials have made to date can be attributed mostly to the economic environment. Moreover, as we will review, evidence from just before the COVID pandemic and developments over the last year suggest that Millennials may come out of the pandemic in better shape than many might have predicted.



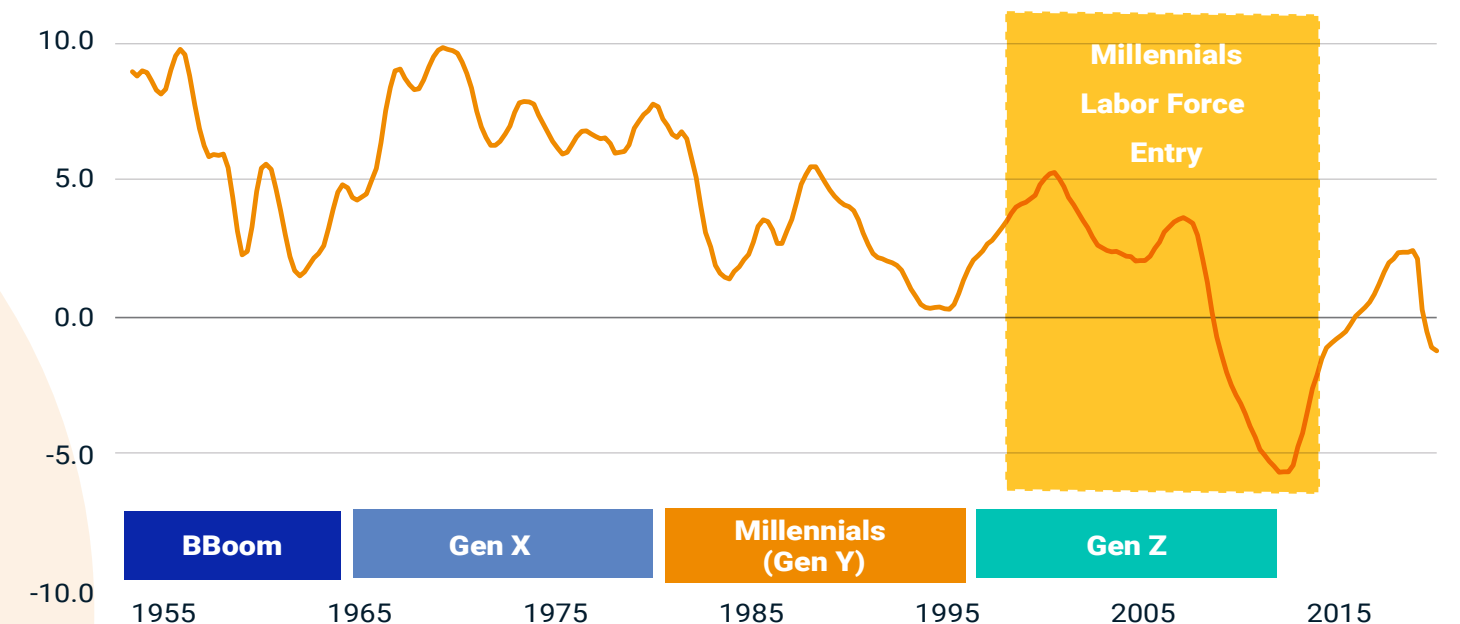
Are Millennials ‘lost’... or simply finding themselves?

Millennials entered the labor force in one of the worst recent periods for economic prosperity. As a simple illustration, let’s construct an index. Let’s call it the “Prosperity Index” (constructed as the difference between two times economic growth less the sum of inflation and the unemployment rate).¹ The higher the sum, in theory, the better the economic conditions for income and financial stability for the average household.

¹ This term is usually referred to as the “misery index,” first created by U.S. economist Arthur Okun.

Exhibit 1:
Prosperity Index and Labor Force Entry, 1955-2020

Source: Talking Heads Macro, St. Louis Federal Reserve - FRED



Entering the labor force in a weak economy can leave “scars” still visible after five years.

A weak economy generates a lower probability of employment and a lower starting salary – that much is natural. The Institute for Fiscal Studies in the U.K. found in a 2017 study that even five years after entering the labor force during a recession, the average negative impact on pretax income of young adults is 4%, or about GBP 1,100.² These effects disappear only after a further five years. In other words, it takes a decade to recover from a bad entry point.

Millennials, compared with other generations, faced particularly difficult economic conditions upon their entry into the labor force. Some of the graduates from the Baby Boomers and Generation X entered the labor force during the recessions of the 1980s and '90s (you can see the prosperity index dips during those periods in Exhibit 1), but the dip in prosperity was short-lived. That meant the majority of Baby Boomers and Generation X faced fairly benign economic conditions upon entering the labor market. Millennials, on the other hand, faced a precipitous decline in prosperity: Those years were the only time since 1955 that this index has gone (deep) into negative territory.

An expensive exit from college, but still a worthwhile investment?

For Millennials, the tough labor market was combined with financial obligations upon leaving college. The absolute numbers are interesting: Nearly 15 million Millennials have student debt, compared with 14.2 million Gen Xers older than them and 7.8 million Gen Zers born afterward, even if the average student debt load is slightly lower than that of Generation X.³ On the other hand, Millennials' lack of housing or consumption-related debt is a huge point in their favor, something that we will return to later.

Living off their parents, or “buying” rational economic insurance?

Living with their parents and marrying later, as well as waiting longer to have children (Exhibit 2) may all be rational responses to the tougher economic circumstances that Millennials faced early on.⁴

If we consider the income of the entire family unit, then the case for staying with their parents longer can make sense. Collectively, the income of parents and their adult children living with them did not show any decline in Institute for Fiscal Studies (IFS) research for the U.K.⁵ That's easy to understand when considering that a large part of the adult children's

disposable income that might normally go toward paying rent or making mortgage payments potentially can be saved while living with their parents.

There's more evidence for the “insurance” theory as well. That is, the lower one's education level, the greater the probability of a young graduate having to live with their parents, and to do so for longer than their higher-educated peers. Pew Research Center in 2019 suggested that, for any generation, those without a college degree are more likely than the college-educated to live with their parents during young adulthood. For Millennials, that difference is almost twice as wide: Almost a fifth of Millennials who have just a high school degree are likely to live with their parents, as opposed to a tenth for those with a college degree.

Commitment-phobic or playing it safe?

For most households, buying a house is the biggest purchase (not counting financial securities) we will make in our lives, while getting married and having children are, for many, some of life's biggest potential commitments. If the economic uncertainty is serious enough for some Millennials to break social norms and stay with their parents, then it is plausible that such large economic and emotional commitments also be postponed.

However, there is some evidence from around the world that the trend of having children later started well before Millennials were born.

² Cribb, Jonathan, Hood, Andrew, and Joyce, Robert. 2017. “Entering the Labour Market in a Weak Economy: Scarring and Insurance.” IFS Working Paper W17/27.

³ Hanson, Melanie. 2021. “Student Loan Debt by Generation.” Educationdata.org.

⁴ Bialik, Kristen and Fry, Richard. 2019. “Millennial Life: How Young Adulthood Today Compares With Prior Generations.” Pew Research Center, Feb. 14, 2019.

⁵ For example, the U.K. study by Institute for Fiscal Studies: “Living Standards, Poverty and Inequality in the UK: 2019.”



**Exhibit 2:
Mean Age of Women at the Birth of Their First Child**

Source: Talking Heads Macro, national sources

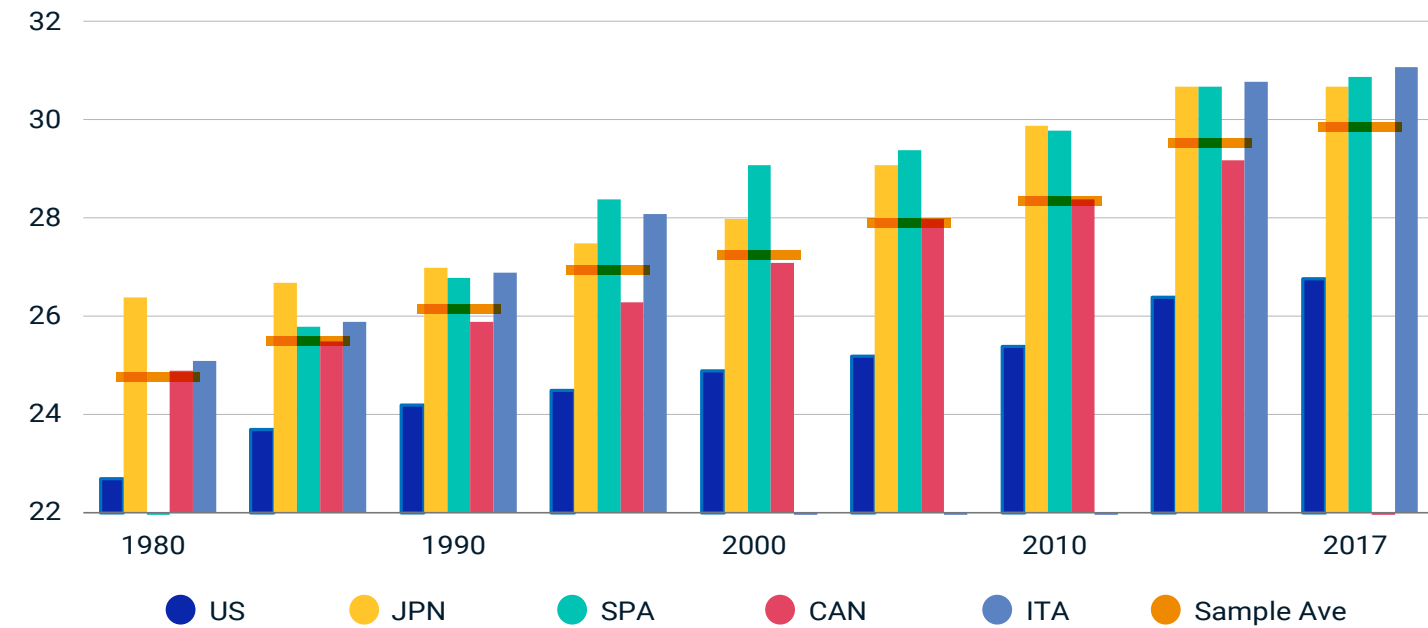


Exhibit 2 shows that women have had later and later births from the 1980s right through the last decade, and not just in the U.S. but across the advanced economies. While Millennials have started families later, they don't seem to be the only generation to have made that choice. What's more, it isn't just the U.S. to which this trend applies. In other words, some of the trends attributed to Millennials may be longer-term dynamics and not purely Millennial-specific characteristics.

Love brands, hate cars? Yes and no ...

Without the responsibility of directing disposable income toward rent or mortgage payments, Millennials have had access to early "conspicuous" consumption in a way that other

generations only afford at higher levels of income that usually come later in adulthood. Accordingly, Millennials have made their mark on all kinds of consumer goods. Private banking group Pictet's Wealth Management arm argued in 2018 that the effects of Millennials' consumption patterns have been felt concretely.⁶

In contrast, Millennials seem to prefer alternative modes of transportation over buying cars... or do they? A Goldman Sachs survey of Millennials said only 15% think car ownership is "really important," while a further 25% said it is "important, but not a big priority."⁷ However, another 25% are "indifferent" to car ownership and a further 30% do not intend to purchase one. However, research from Massachusetts Institute of Technology (MIT) suggested that when one accounted for

differences in lifestyles, Millennials actually drove more than Baby Boomers.⁸ Millennials tend to be urban (in part because higher urban wages can help pay off their student debt faster) and have lower incomes earlier in their careers and start families later in life, as discussed. Christopher R. Knittel, a professor of Applied Economics at the MIT Sloan School of Management, writes that, "While Millennial vehicle ownership and use may be lower early on in life, these differences are only temporary and, in fact, lifetime vehicle use is likely to be greater."

In summary, faced with such generational economic headwinds, Millennials seem to have moved away from historically conventional lifestyles, certainly in the U.S. and globally for some trends.⁹ That shift points to a reduced ability and/or willingness to take on significant

economic and social commitments earlier in life. The potential good news? This generation's long shadow of difficult entry into the labor force seems to be passing. Millennials already are showing better income trends (Pew Research Center, 2019) and more ambitious spending patterns (National Association of Realtors, 2021). What's more, less traditional lifestyle choices, like living with their parents for longer and marrying later, have allowed Millennials to reduce expenses and set themselves up for the stage of life they're now entering.

6 "Consumption Patterns Are Changing with Younger Generations." 2018. Pictet Wealth Management, 2018.
 7 "Millennials: Coming of Age." 2021. Goldman Sachs, 2021.
 8 Knittel, Christopher R. and Murphy, Elizabeth. 2019. "Generational Trends in Vehicle Ownership and Use: Are Millennials Any Different?" CEEPR Working Paper 2019-006, MIT.
 9 Deloitte Global Millennial Survey 2019.



Are Millennials closer to finding themselves despite the pandemic?

Many of those economic headwinds may be abating, at least for a substantial portion of the Millennial generation.

The St. Louis Federal Reserve recently reported that the “wealth deficit” that Millennials have faced over the last decade is narrowing sharply, though not equally among all racial groups and ethnicities.¹⁰

In the year to July 2020, Millennials accounted for the biggest share of U.S. homebuyers (37%), greater than Gen Xers (24%) and Baby Boomers (32%), according to the National Association of Realtors.¹¹

Before the pandemic struck, American households headed by Millennials showed the highest income compared with other generations (Pew Research Center, 2019). This is partly a reflection of the high levels of education among Millennials, and in some part a function of traveling the decadelong road toward leaving behind the scars of entering a weak job market. The eve of the pandemic marked more than a decade after the end of the Global Financial Crisis.

¹⁰ Kent, Ana Hernández and Ricketts, Lowell R. 2021. “Millennials Are Catching Up in Terms of Generational Wealth.” St. Louis Federal Reserve, March 30, 2021.
¹¹ National Association of Realtors Research Group. 2021. “2021 Home Buyers and Sellers Generational Trend Report,” March 2021.



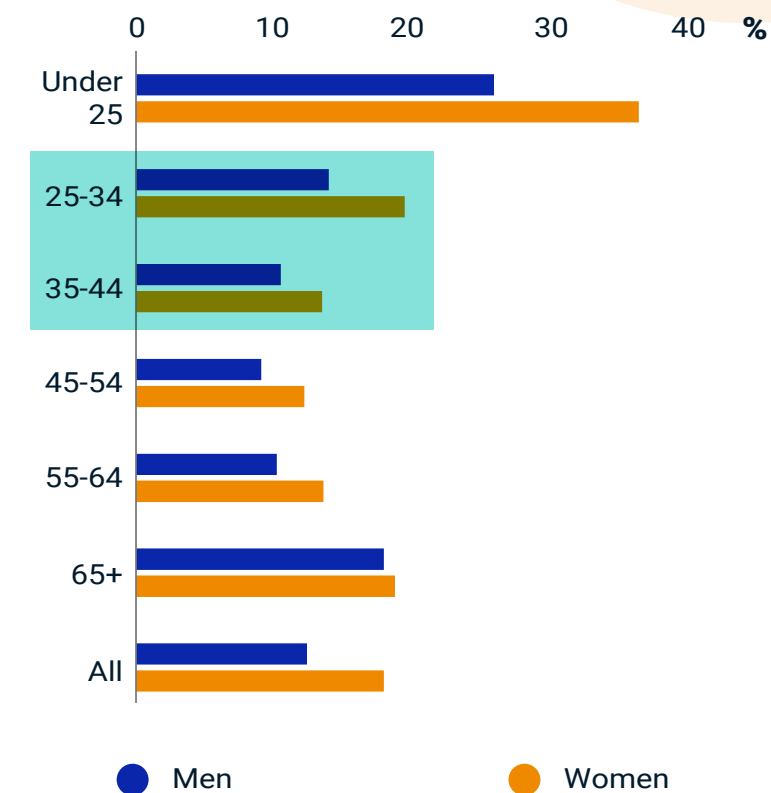
The final hurdle: getting through the pandemic

No one was immune from the pandemic’s economic and social damage but Millennials had built up protection from the pandemic in (at least) two ways. First, like every other recession or crisis, those who are better-educated have been far better-protected from economic headwinds.¹² Millennials fit this bill, outpacing all other generations when it comes to education levels.¹³ Second, the typical age profile of those at risk of job or income loss means that it is Gen Z, rather than Millennials, that was most exposed in this way during the pandemic. For example, data from the Labour Force Survey in the U.K. suggests that those aged 25-44 (Millennials are in the 25-40 range now) account for a much smaller share of total employees than does Gen Z (those younger than 25).

Note: Shutdown sectors included non-food retail, restaurants and hotels, passenger transport, personal services, and arts and leisure services — excluding self-employed participants.

Exhibit 3: Millennials, Now Between 25 to 40 Years of Age, May Have Been Less Exposed to Sectors Shut Down During the Pandemic

Source: Institute for Fiscal Studies, U.K.



¹² See (i) Daly, Mary, Jackson, Osborne, and Valetta, Robert. 2007. “Educational Attainment, Unemployment, and Wage Inflation.” Federal Reserve Bank of San Francisco Economic Review, 2007; (ii) Autor, David. 2019. “Work of the Past, Work of the Future.” AEA Papers and Proceedings, 2019.

¹³ “Trends, Origins, and Implications of the Millennial Wealth Gap.” New America, 2019.



A Millennials outlook

There are three reasons for now considering the Millennial generation to potentially have a robust economic future. First, rather than being a “lost” generation, we have shown that they seem to be a generation that simply entered the labor force at an unlucky time and may have been about to reverse those aggregate losses before the pandemic began. Second, as we have illustrated, their lifecycle choices, while somewhat historically unconventional, seem mostly rational from an economic point of view and probably have helped position them well for the future. And, finally, Millennials’ average level of education and age mean they likely are better-placed to weather the pandemic’s economic fallout than a casual assessment might suggest.

MSCI would like to thank Manoj Pradhan, founder of Talking Head Macroeconomics, for discussions and insightful analysis of this megatrend that have facilitated the preparation of this document.

Pradhan is the co-author of the bestseller, “The Great Demographic Reversal.” He founded the independent research firm Talking Head Macroeconomics in 2016 and was previously a managing director at Morgan Stanley, where he led the Global Economics team. He joined Morgan Stanley in 2005 after serving on the faculty of the George Washington University and the State University of New York. Pradhan works on thematic global macroeconomics. He has a Ph.D. in economics from the George Washington University and a master’s degree in Finance from the London Business School.



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