

Young adults and trends in household formation

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The pace of recovery in the housing market has been slower than the pace of recovery in the overall economy. The slow growth of household formation among young adults, a reversal of the sharp rise that occurred for this group during the housing boom of the late 1990s and early 2000s, is a key factor behind this trend. In [“Household formation among young adults”](#) (Federal Reserve Bank of San Francisco, Economic Letter, May 23, 2016), Fred Furlong uses data from the U.S. Census Bureau’s Current Population Survey to analyze the evolution of household formation among young adults. He shows that the current behavior of young adults reflects a return to the norm that existed prior to the housing boom of the late 1990s.

Furlong analyzes the relative growth in household formation by looking at the shifts in “headship rates,” the share of the population identified as heads of households. For nearly 50 years, the rate of growth in headships exceeded population growth by 0.2 percentage point per year. Since 2007, that has dropped to –0.5 percentage point per year. The paper goes on to examine the distribution of headship rates across four age groups: 18–24, 25–29, 30–34, and 35–44. The first two groups in particular, 18–24 and 25–29, have experienced significant declines in headship rates recently. Headship rates rose for all groups, but dropped after 2007 for the younger groups while remaining relatively stable for the 35–44 year-old group.

For all four groups, ownership rates increased during the housing boom of the late 1990s and early 2000s, but fell after 2007. Ownership rates have been driven down by several factors including tougher credit requirements, rising foreclosures, and deteriorating household finances since the Great Recession. A concomitant effect of the decreased household formation among young adults is the rise of alternative residential choices such as living with parents, other relatives, or friends. The author goes on to note a correlation between these living arrangements and both the rise in student debt and the decline in marriage rates. Headship rates are similarly effected by marriage rates, and CPS data shows that the shares of young adults living with spouses has declined since 1994.

Declines in headship and ownership among young adults is partly attributable to declining labor-force participation, as the data shows a sharp decrease in the share of young adults in the labor force. Since 2000, the share of 18 to 24 year olds not in the labor force has increased by 8.5 percentage points and now totals 35 percent. The share not in the labor force is also associated with a 1 percentage point drop in the headship rate, or 300,000 fewer households. Whatever the reasons for young adults’ residential choices, they seem to be merely delaying the decision to head their own household, rather than eschewing home ownership altogether. Even though young adults are living with their parents longer, they are continuing to eventually form households over time.

During the Great Recession, household formation and headship rates among young adults declined substantially. This contrasts with the rates present during the housing boom of the late 1990s and early 2000s. But there are signs that a readjustment is imminent. The current population share of young adults is fairly close to the share that existed at the start of the most recent housing boom. Also, while more young people are living with their parents,

they are forming their own households, albeit later in life, leading to higher headship rates over time. Mr. Furlong notes that U.S. Census Bureau projections suggest that household formations will average about 1.5 million per year through 2020, which is much better than the 900,000 annual average of the last 5 years.