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The kids are alright: millennials and the economy

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Millennials, the generation of Americans born between 1981 and 1997, have become a convenient scapegoat for a host of modern societal ills. They have been blamed for everything from Tide Pod consumption and increased social isolation to the decline of religion and attacks on free speech. Some analysts have gone as far as to blame them for a host of modern economic woes, including declining vehicle ownership, the weak housing market, and poor grocery store sales. But are the economic choices and preferences of millennials really so different from those of earlier generations? More specifically, are millennials hurting the economy, or is the economy hurting them? Christopher Kurz, Geng Li, and Daniel J. Vine examine these issues in a November 2018 report from the Federal Reserve, "Are millennials different?" Ultimately, the authors find millennials' choices have been influenced by important economic changes.

The authors compare millennials' income, debt, and net worth with that of similar-age cohorts of previous generations. For income, the authors compared the inflation-adjusted earnings of full-time working millennials in 2014 with that of baby boomers (born from 1946 to 1964) working in 1978 and Generation Xers (born from 1965 to 1980) working in 1998. They found that—after controlling for age, work status, and other demographic variables—Generation X and baby boomer families had higher household incomes, by 11 percent and 14 percent, respectively. The differences are even more pronounced when female and male heads of household are looked at separately. Among female heads of household—again, controlling for age, work status, and other demographic variables—Generation X and baby boomer workers had 12 and 24 percent higher earnings, respectively. Among males, Generation Xers earned 18 percent more and baby boomers earned 27 percent more.

After finding that millennial workers earned less than previous generations, the authors examined debt and net worth. Upon their review of a relatively new dataset that only includes data for millennials and Generation Xers, they found that, overall, millennials in 2017 had less total debt than Generation Xers in 2004, $44,000 compared with $49,000 (figures adjusted for inflation and expressed in 2016 dollars). But a higher proportion of Generation X debt was in mortgages, while a higher proportion of millennial debt was in student loans. Only 20 percent of Generation Xers had student loan debt, while a third of millennials held such debt. Further, the average millennial borrower carried a much higher student-debt balance, $18,000, as compared with $13,000 for Generation Xers. This student loan disparity led to lower credit supply, making it more difficult for millennials to purchase homes. Accordingly, while millennials held less debt overall than Generation Xers, they had a lower average net worth, nearly 40 percent lower. This was mostly because more Generation X debt was tied to an asset, specifically a mortgage for a home.

Ultimately, the authors conclude that millennials' worse-off financial status is less about moral failing and more about the fact that, as compared with earlier generations, millennials have more student debt, lower earnings, and fewer assets. Further, they found that "millennials do not appear to have preferences for consumption that differ significantly from those of earlier generations.” In other words, if millennials are buying fewer cars, fewer homes, and less groceries, these differences are not a matter of choice so much as a matter of economic necessity. Saddled with increased levels of student debt and a tightened credit market in the wake of the Great Recession, millennials have less buying power than their cohorts of previous generations. In other words, millennials aren’t hurting the economy, the economy has been hurting them.