

What's Trending in 2015: The Generation Gap

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An Esri® White Paper
June 2015



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Contents	Page
Introduction.....	1
The Generation Gap.....	2
The Outlook	5
Esri's Data Development Team.....	5

What's Trending in 2015: The Generation Gap

Introduction

It's hard to decipher the state of the economy from headline news. Employment is up; unemployment is down. Median household income increased by 2.2 percent in the past year, although it's still below the median of \$54,400 estimated in 2010. Real growth in household income has been elusive. Financial markets continue to prosper, but they can be erratic on any given day. The real drivers of economic growth in the US—consumers—remain skeptical. Consumer confidence has improved from 2014 but is down from a January 2015 index of 98.1, with another drop occurring in May. A CNBC poll showed Americans' view of the economy hit an "8-year high" when 27 percent of respondents judged the economy to be "excellent or good."¹

<i>Plus</i>	<i>Minus</i>
Employment increased by 3 million, up from 1.9 million last year, 2013–14.	Labor force participation rates have not changed—holding at 62.2 percent.
Unemployment dropped by 1.8 million, to 6.4 percent, down from 7.6 percent in 2014.	Consumer confidence slipped in May to 90.7, from 98.1 in January. ²
Median home value is still increasing, 4.8 percent in 2015—compared to 7.6 percent in 2014.	Home ownership is (still) declining: 63.3 to 63 percent, 2014–2015.
Financial markets are still setting records—the Dow Jones Industrial Average has cleared 18,000.	Gross domestic product (GDP) decreased in the first quarter by 0.7 percent.
The Federal Reserve Board of Governors has not yet increased interest rates.	The Fed does expect to increase interest rates this year. ³
Inflation is down, compared to 2014, primarily due to the drop in oil prices.	Inflation remains below the 2 percent level that is considered healthy by the Fed.

The more tangible indicator of consumer confidence, retail sales, improved over the first four months of 2014 by 1.9 percent. Consumer spending was expected to increase more in the first quarter of 2015. The steep drop in oil prices provided real savings at the gas pump for consumers. Spending at gas stations dropped 22.5 percent from January to April 2015.⁴ But the savings were not spent. Retail sales showed no increase in April.

Home sales are not faring much better than retail sales right now. Since March 2014, new home sales have increased by 19 percent, primarily in the West. However, in March

¹ April 7, 2015, <http://www.cnbc.com/id/102566229>.

² Consumer Confidence Index reported by the University of Michigan, <http://www.sca.isr.umich.edu/>.

³ Board of Governors of the Federal Reserve System, Federal Open Market Committee report, April 29, 2015, <http://www.federalreserve.gov/newsevents/press/monetary/20150429a.htm>.

⁴ *US Census Bureau News*, Advance Monthly Sales for Retail and Food Services, April 2015, CB15-78.

2015, new home sales declined by 11.4 percent from February.⁵ Existing home sales are 6 percent higher than they were one year ago, but down in April, by 3.3 percent.⁶ Home sales, new and existing, have increased in the past year, but new construction remains slow. The housing inventory increased by less than a million units 2014–2015.

The modest growth from the past year is faltering. The revised estimate of growth in the GDP is -0.7 percent for the first quarter of 2015. Economists expected 1 percent growth, better than the first quarter of 2014 (-2.1 percent), but well below the 2.4 percent average for 2014. The pace has delayed the inevitable increase in interest rates by the Federal Reserve Board, which has encouraged the stock markets. For now, interest rates remain unchanged by the Fed since 2009.

Reasons cited for the slowing change in 2015 include harsh winter weather, the labor disputes that impacted West Coast ports, or the strong dollar. Although the recent change has been effected by a number of variables, the most compelling reasons are consumer-based, demographic. More than two-thirds of the US economy is driven by consumer spending. Examining the dimensions of demographic change provides a unique perspective on the state of the US economy. Curiously, demographic change raises expectations for higher consumer spending and economic growth.

The Generation Gap

Population growth in the US is typical of a maturing population. Decreasing birth rates and increasing death rates tend to slow growth—from an annual average increase of 1.2 percent in the 1990s to 0.9 percent from 2000–2010, and 0.6 percent from 2010 to 2015. Household growth displays the same deceleration, from 1.4 percent annually in the 1990s to 0.7 percent annually since 2010. However, the rates of growth for the US population or households represent averages across all geographies and all ages.

From 2010 to 2015, population change among 20–24 year olds is as different from 40–44 year olds as Houston is from Cleveland. The 20–24 age cohort is part of the Millennial generation and increasing at 1 percent annually. Population aged 40 to 44 years in 2015 is decreasing, almost 2 percent annually. Ages 40–44 are currently Gen X, a much smaller cohort than the Millennials.

Millennials are the largest generation in the US population. With almost 81 million births, Millennials are more populous than the Baby Boom generation, which included almost 75 million births from 1946 to 1964.⁷ In the 1970s, the number of Baby Boomers aged 18 years and older increased by 43.4 million; the number of households increased by 17 million. When Millennials entered the household formation ages shortly before 2000, a similar bump in household growth was expected. From 2000 to 2010, the number of Millennials 18 years and older increased by 44 million; the number of households increased by 11.2 million, short of the expected gain of at least 17 million.

⁵ US Census Bureau and Dept. of Housing and Urban Development, New Residential Sales in March 2015, CB15-68.

⁶ National Association of Realtors, May 21, 2015, <http://www.realtor.org/news-releases/2015/05/existing-home-sales-lose-momentum-in-april>.

⁷ The span of the Baby Boom, from 1946 to 1964, is rarely disputed. The spans of Gen X or the Millennials can vary, depending on the source. Esri analysis dates Gen X as the period from 1965 to 1978. Millennials, also known as Gen Y, represent births from 1979 through 1999.

Through the first half of the past decade, 2000 to 2005, households increased by almost 7 million, 1.2 percent annually. Growth slowed when the housing market began to fray and decelerated through the Great Recession to an average of 0.8 percent annually from 2005 to 2010. Although the number of Millennials entering the household formation stage, aged 18 to 24 years, increased in 2000–2010, the number of householders under age 25 decreased. Since 2010, the number of Millennials aged 18 to 24 years has increased 4 percent. The number of householders under 25 decreased again, by 1 percent.

The Great Recession certainly impacted rates of household formation, but the recession has been over for six years. Millennials are still not rushing into their own homes. They are not impacting household growth like the Baby Boom did. The economic lift expected when a large generation reaches adulthood and sets up housekeeping is still pending. The differences between the Baby Boom and the Millennials are economic.

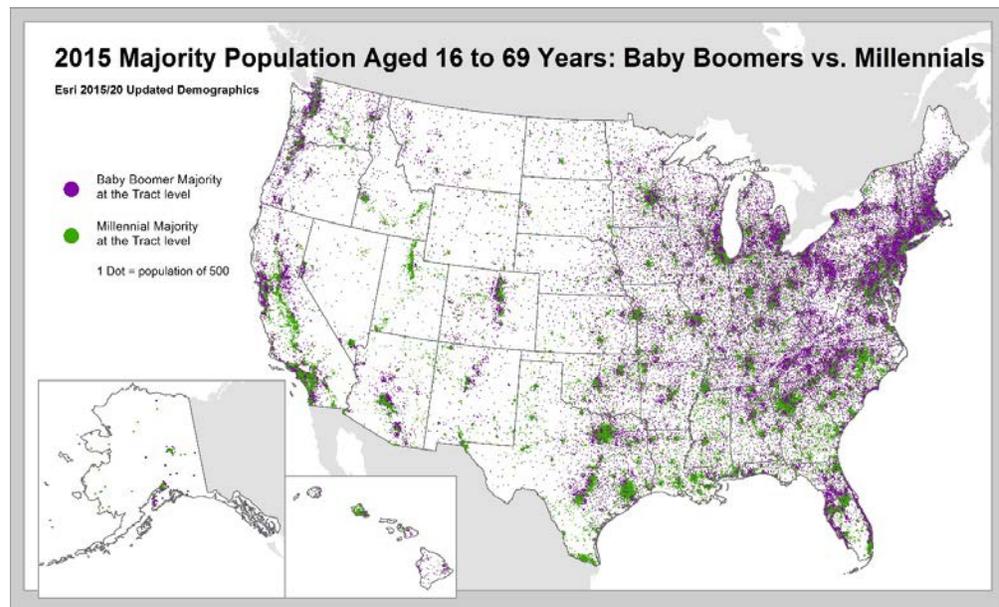
In the 1970s, employment increased by 21 million, 27.5 percent in 10 years. From 2000 to 2010, employment increased by 9 million to 7.2 percent. Employment growth in the past decade also took a hit from the Great Recession. In the 1970s, the number of Baby Boomers aged 16 years and older increased by 44.4 million; more than 82 percent (36.5 million) joined the labor force. From 2000 to 2010, the number of Millennials 16 years and older increased by 44.7 million; only 73 percent (32 million) joined the labor force.

Unemployment increased in both decades. In the 1970s, the increase was 3 million, from an unemployment rate of 4.4 percent in 1970 to 6.5 percent in 1980. From 2000 to 2010, unemployment increased by almost 9 million, from 5.8 percent in 2000 to 10.8 percent in 2010. Since 2010, total employment has regained the loss of jobs attributed to the recession. In the past year, employment increased by another 3 million jobs. That brings the net increase in jobs over the past 15 years to 18 million—short of the increase of 21 million jobs available to Baby Boomers in the 10 years from 1970 to 1980.

Three million new jobs in the past year dropped the rate of unemployment from 7.6 to 6.4 percent. However, labor force participation rates are still declining for most of the country. There are exceptions, representing one in three metropolitan areas and one in five micropolitan areas. Areas with increasing labor force participation are characterized by strong local economies, like Austin or Dallas-Fort Worth in Texas; economic support from external revenue sources like seasonal populations (Hilton Head, South Carolina) or college students (Ames, Iowa); or simply younger populations.

However, the declining labor force participation rates may provide opportunity for Millennials. The Baby Boomers have begun to retire. Their exodus from the labor force can create job openings more quickly than employers have. The transition should create some interesting changes in the distribution of the population. As the map below illustrates, Baby Boomers and Millennials are not equally distributed throughout the US.

For a more detailed map on the generations that comprise the US labor force, see <http://arcgis-content.maps.arcgis.com/apps/MapSeries/index.html?appid=5a28e3a4c849471c822a64fa105c50d8>



Job opportunities are not the only obstacle facing Millennials. The generation with the highest level of educational attainment is also carrying the largest debt from student loans. Ironically, the Millennials poised to take the best jobs by virtue of their education are also the most likely to be indebted. Approximately 70 percent of college graduates carry some student loan debt, according to analysis by Mark Kantrowitz, publisher of Edvisors.com, a website that helps plan and pay for college expenses. The average student debt in 2015 is more than \$35,000.⁸ Again, the recession gets the blame, not only for recent increases in the cost of a college education, but also for the tight credit restrictions that face student borrowers when they graduate.⁹ The low rate of household formation by the Millennials is clear—and evident in the housing market.

Housing inventories in metropolitan areas are still increasing more quickly than the smaller micropolitan areas. However, annual housing change in metros and micros is plodding along at half the pace of the last decade, 2000–2010. In the past year, housing construction has declined slightly, with fewer than a million new units added. Regionally, the South still holds the lead, with more than half of the new housing units. The lower rate of increase in the housing inventory since 2010, 0.7 percent, parallels the slower rate of household formation, 0.7 percent. Vacancy rates reflect the congruence, barely increasing from 11.4 to 11.6 percent. The real change is the continuing drop in the rate of home ownership, from 65 percent in 2010 to 63 percent in 2015. Declining rates of home ownership are evident from the smallest, nonmetropolitan counties, where home ownership is traditionally highest, to thriving micropolitan centers and major metropolitan areas, except in Massachusetts. Home ownership is increasing in Massachusetts: 62.7 percent is still below the national average but above the state's 62.3 percent in 2010.

⁸ <http://blogs.wsj.com/economics/2015/05/08/congratulations-class-of-2015-youre-the-most-indebted-ever-for-now>.

⁹ One of the variables impacting college tuition is the reduced support from state governments following the recession.

Areas with robust employment/population ratios, like Boston, are poised to reverse some lingering effects of the housing market crash, like home ownership. Employment growth attracts the job seekers, but they also need a growing housing market for the new households. With lower vacancy rates, areas like Boston and Dallas-Fort Worth have become sellers' markets. Home value and rent are increasing more quickly than home ownership. Increased renter occupancy has also increased rent in many areas. Significant increases in rent and modest gains in income produce disproportionate spending on rent.¹⁰

The Outlook

Demographic change has provided the Millennials and the demand for new homes and the potential for a serious spending spree by new householders. Economic change is still not providing sufficient opportunities for the Millennials. And trends remain mixed with uneven growth and uncertain consumers.

Jobs lost to the Great Recession have been replaced. Unemployment is down. The stock market has generally prospered, although those benefits are not universal. Neither income nor home value has returned to prerecession levels. Is the prerecession value of an overinflated housing market the best standard? Gauging progress by the consistency between economic change and demographic change is a better yardstick than the economic conditions that precipitated the Great Recession. Are there enough jobs to hire the next generation of workers, or do the Baby Boom need to retire first? If job opportunities are based on replacement, is it growth, or is it just maintenance?

In the short term, the estimated change in the first quarter GDP, -0.7 percent, has been revised, down from an initial estimate of 0.2 percent. But growth is expected to rebound in the second quarter. Businesses are currently focused on the workforce more than cost savings when they look to expand or relocate.¹¹ Unfortunately, many energy companies have begun layoffs due to the drop in the price of oil. Progress remains tenuous. The sign that the economy has regained momentum will come when the Federal Reserve Board of Governors elects to raise interest rates.

Esri's Data Development Team

Led by chief demographer Lynn Wombold, Esri's data development team has a 35-year history of excellence in market intelligence. The combined expertise of the team's economists, statisticians, demographers, geographers, and analysts totals nearly a century of data and segmentation development experience. The team develops datasets, including annual demographic updates, Tapestry™ Segmentation, Consumer Spending, Market Potential, and Retail MarketPlace, which are now industry benchmarks.

¹⁰ <http://www.zillow.com/research/rent-affordability-2013q4-6681/>.

¹¹ From a March 2015 study by the International Economic Development Council, <http://www.nbcnews.com/business/economy/workers-are-new-weapon-battle-business-n365391>.



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