

# Here Comes the Boom

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The Millennial generation (born between 1982 and 1996) comprises the second largest population in the United States. Only the Baby Boomers are a larger cohort. Large groups of similarly aged people tend to have commonalities in their consumption patterns, and as a result, a good investment strategy over the years has been to follow populations as their consumption patterns change. Baby Boomers made a progression (some of these overlap) from household spending to leisure spending to investment spending to health care spending. Millennials, however, have frustrated demographers by failing to follow expected consumption patterns while in their 20's.

- >> **Average marriage age now aligns with the average Millennial age.**
- >> **Millennials are buying cars.**
- >> **Competition for smaller houses delayed household formations.**
- >> **Purchases of home furnishings are finally expected to grow.**

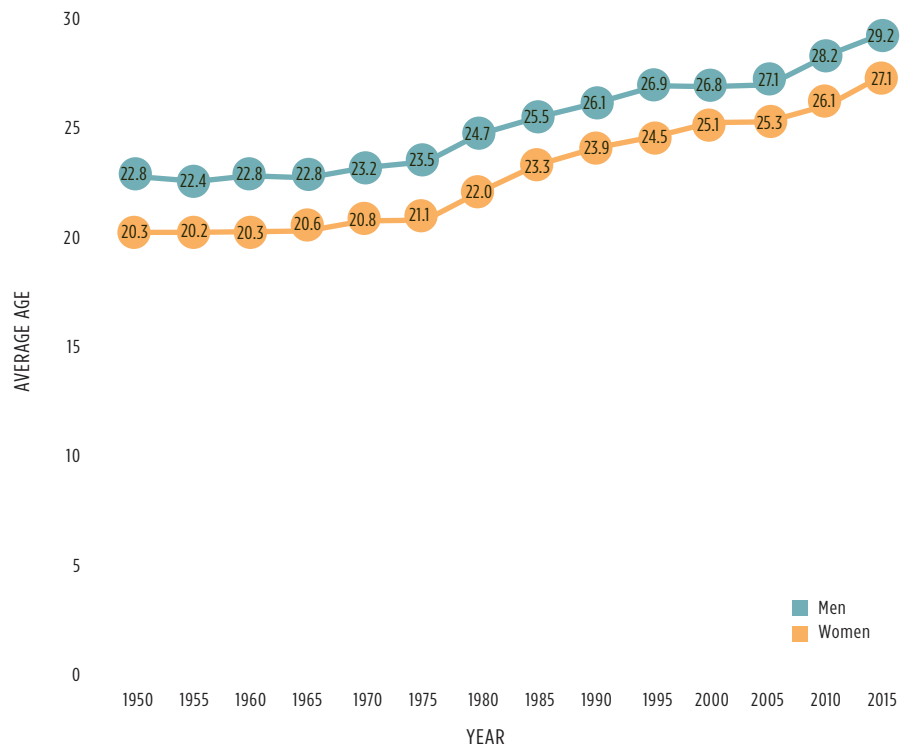
## Did you hear the one about the Millennial?

Plenty of jokes are repeated about over-educated, under-employed Millennials living in their parents' basements. As with all good jokes, there is some truth to the punch line. Millennials went to college at greater rates than previous generations (36% compared to 32% for Gen X), and their average age at graduation ranged between 23 and 24 years old. This average age at graduation is up nearly two years from that of the previous generation. Many things could have caused this, ranging from starting college later, to changing schools, to changing majors, to lack of academic achievement. Longer college terms yielded high student loan balances, and according to consumer surveys, jobs were not plentiful until 2016, preventing some loans from being serviced. More college and more time in college resulted in a financial hurdle which looks to have delayed household formations. In 2017, 46% of Millennial homebuyers reported having more than \$25,000 in student debt.



Tracking previous generations, Millennials would have started household formations by now. The average Millennial is 29 years old, and the peak Millennial birth rate (1991) means the US has more 27 year olds than any other age group. Household formation correlates to marriage. Population statistics from the US Census show a rising average age at the time of marriage, and currently, men marry at 29 and women marry near 27 years of age. Looking at historic birth rates by sex, 2018 will mark the peak in 29 year old men and 27 year old women in combination, not that those ages represent exactitude. Marriage percentages have been falling for decades, but still 70-75% of Millennials are expected to enter into traditional marriage. Given older ages at marriage, the ages of first marriage and the age at which a woman first gives birth are close together. You might get invited to a lot of weddings and showers in the next year or two.

### How is the age at which people get married changing in the U.S.?



The data for this visualization comes from the U.S. Census Bureau. It is a product of the Current Population Survey and shows the estimated median age for men and women since 1950.

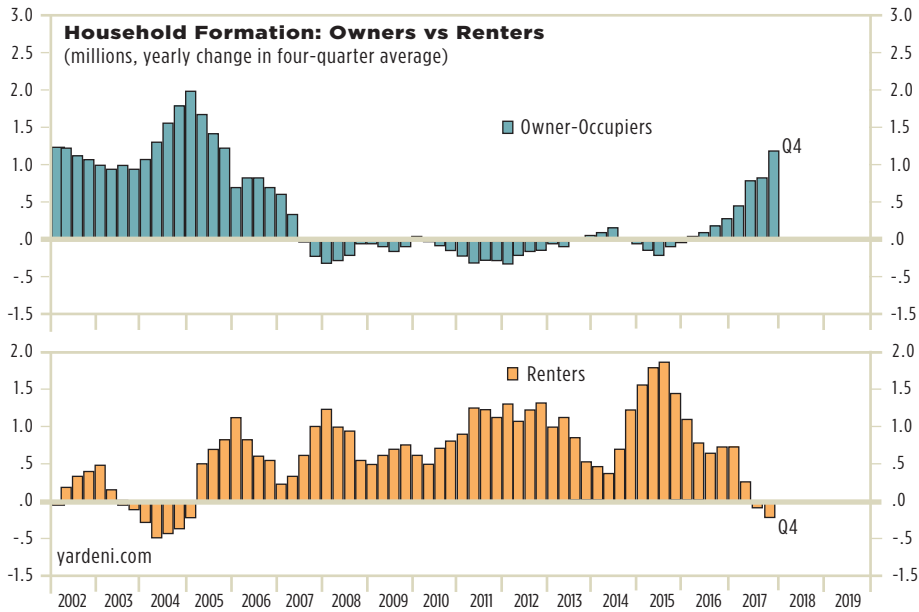
Source: Bloomberg, JAG Capital Management

Household formations did not pick-up in 2017, but there are some signs of bottoming. Both 25-34 year old men and women showed an increase in the “Living With Spouse” census category from 2016 to 2017. This was the first increase in this data set in more than a decade. Coincident with an increase in married households, the percentage of both men and women living as a “Child of Householder” decreased last year. These figures represent some movement out of the basement and into new households, albeit overall household formations do not show this difference yet. For the last three quarters of 2017, economic data does show an increase in home buying and a decrease in rentals.



YEAR	Total Number 25-34 Yrs Old		Living with Spouse		Child of Householder	
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN
2017	22,105	22,123	36.7	45.1	18.3	11.5
2016	21,838	21,912	36.3	44.9	18.5	11.6
2015	21,416	21,574	38.3	46.7	17.0	11.0
2014	21,186	21,219	38.4	46.8	16.6	10.7
2013	20,803	20,967	39.5	48.0	15.7	10.1

### Household Formation



Source: Census Bureau and Haver Analytics

A traditional spending cycle would have Millennials buying cars and houses by this age. The news is full of stories about ride-sharing and fewer kids seeking driver's licenses. However, those stories seem to miss the fact that the age 16-34 cohort is buying cars at a rate not that dissimilar from that of a decade ago. Actually, it is 35-49 year old Gen X'ers that are showing a linear and significant decrease in vehicle purchasing. Young car buyers have maintained their share of the market and their purchase activity per 100 persons. Quietly perhaps, Millennials are buying cars.

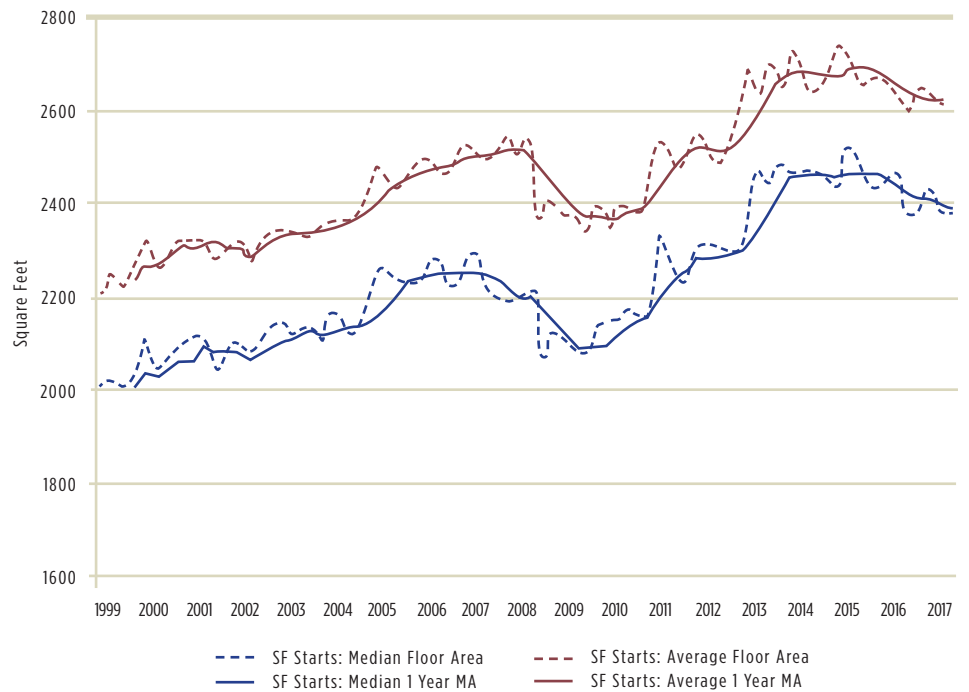
### Share of New Light Vehicles Purchased by Age Group (Percent)

YEAR	Age Group: 16 - 34 Years	Age Group: 35 - 49 Years	Age Group: 50 - 54 Years	Age Group: 55+ Years
2000	28.6	39.2	11.1	21.2
2005	24.3	36.6	11.5	27.4
2010	19.8	31.4	12.2	36.5
2015	22.6	29.9	11.2	36.4

Source: Power Information Network - PIN, a business division of J.D. Power and Associates.

Although car buying not far off of normal levels, home purchasing appears to be lagging historic trends for the 25-34 age group. Federal Reserve data suggests that home affordability is trending positive now that lower-level incomes are showing some upward movement. Yet, high prices appear to be hindering the market. Demand for investment real estate has ballooned prices, especially in coastal cities. Throughout the country, a low supply of entry-level homes is further hurting the pricing situation (higher). The market is reacting by beginning to build smaller square footage homes, but that change will come slowly. News reports suggest that Millennials are losing housing opportunities to more aggressive iGen and move down Baby Boomer buyers. Millennials are having to wait longer to build up more equity, and they are often forced into buying higher-end homes just to find availability. This forced move-up is delaying the household formation trend.

### Size of New Single-Family Homes



Source: Bloomberg, JAG Capital Management

The trend toward smaller houses may keep the homebuilding and building products companies from flourishing (smaller houses, less flooring, less drywall). However, when household formation has grown in previous periods, it has produced demand for household items such as furniture, window coverings, paint, appliances, tools, and hardware. Millennials have a reputation for being frugal, so these expenditures may tilt toward value brands and be purchased disproportionately from discount retailers.

## Conclusion

Fear not demographers, the Millennials are engaging in normal consumer spending patterns. The long drought in household formations may be ending as the Millennial population bulge approaches age 30. Housing volumes are turning up, and home goods are sure to follow.



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