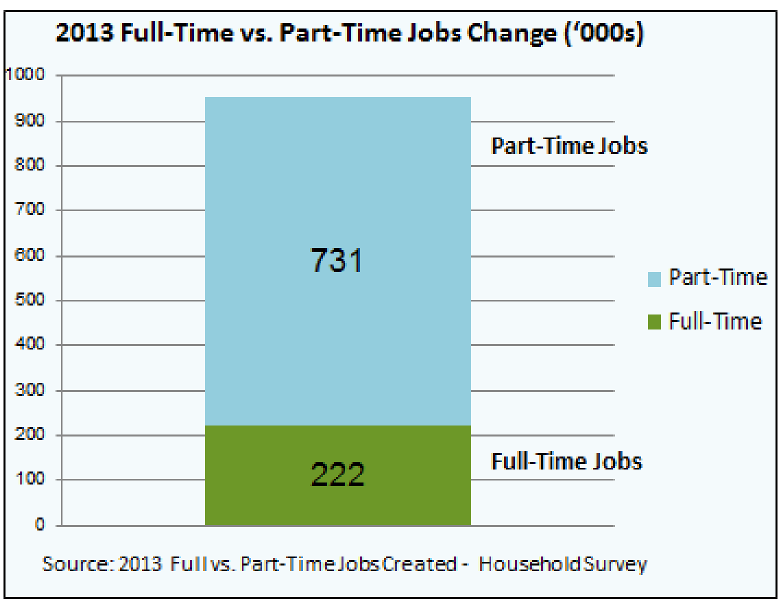
Super-Millennial: Generation Y to Save Our Economy?

Deleveraging, or reducing debt, by corporations, the populous and the government is key to recovering from the Great Recession of 2008. Economic recovery after similar recessions has historically taken 10 to 15 years. In 2009, we penned a piece to clients explaining how corporations deleverage first, then the populous, and lastly the extended government. The effects of this long, protracted process will be felt well beyond the full recovery. A new generation will be called upon to make sacrifices and choices to assist in *hopefully* pulling the American economy onto a sustained path. The generation that will come to the rescue is generally referred to as lazy, entitled, delusional and apathetic. They are also incurring more debt through education than previous generations, and releasing less of their hard-earned money into the economy.

Although these are just a few of the depictions used to describe those belonging to Generation Y, a recent UBS report views Millennials in a different light, referring to them as "the most fiscally conservative generation since the Great Depression."[1] The report found that the impact of the Great Recession on Millennials is similar to the impact of the Great Depression on their grandparents, the G.I. Generation, born between 1901 and 1924. In this way, it's no surprise that those belonging to Generation Y and their grandparents have comparable saving habits.



Who are the Millennials? Millennials are the 20 to 30 something's born between 1980 and 1993, who came of age during the turn of the millennium. They are the most ethnically and racially diverse cohort, politically conservative, socially liberal, expressive and open to new things.[7] They are the tech-savvy, social media-having group, more so than their elder counterparts. In fact, three-quarters of Millennials participate in social-networking, compared to half of Baby Boomers.[3]

Economists look to the Millennials to provide economic growth and support for our Baby Boomer generation. Born between 1946 and 1964 at 79 million strong, Baby Boomers account for 26% of the population. Boomers are currently reducing their hours worked and attempting to move into semi or full retirement. According to Pew Research Center, for the next nineteen years, 10,000 Baby Boomers will turn 65 daily. By 2030, everyone born during this era will have joined the rest of the sexagenarians.[2] As Boomers move into retirement they will be placing an increasing burden on Social Security and Medicare systems. In order to relieve some of the strain, America needs its younger generations to step into the workforce to generate more tax revenue that will contribute to the already depleting Social Security pool. There is only one problem: a majority of Millennials are underemployed.

The largest generation in American history soars above the "Baby Boomers" by seven percent. While Millennials are the most educated group, this generation has the highest unemployment rate. Their unemployment rate is currently reaching 17%, higher than the national rate which lingers around seven percent. According to Pew Research, young people who graduate from college in a bad economy typically suffer long-term consequences, affecting their careers and earnings for as long as15 years.[7] In 2013, the number of jobs available grew to about 953,000. Out of this figure, about 77% of the jobs created were part-time.[2] Undoubtedly, there is a disparity between the amount of full-time jobs available and the number of members in this cohort.

Since the first Millennial entered the workforce in 2002, economic conditions were unstable, political and ever-changing. The generation that was exposed to the job market soon after the attacks of September 11th and in the midst of the Great Recession appears to have a bigger financial burden than previous generations. In response, the Millennials have come in to the habit of conservatively saving any money that they earn, being referred to as "children of the recession"[10], which is impacting their spending purchases.

As a result, instead of purchasing homes, Millennials are renting or moving back home with their parents. Instead of buying cars, Millennials are choosing greener methods via public transportation or biking. Instead of starting families, the majority of Millennials are single and saving at a whopping 75%.[7]

As if this isn't enough, Gen-Y is beginning to confront additional headwinds, and those headwinds are supporting the generation above them. Baby Boomers must rely on their younger counterparts when it comes to their post-retirement living.

According to the Bureau of Census, the amount of people of retirement age will grow from 12.8% of the population today to around 15% by 2020, and about 20% by 2030. More research done by the Bureau suggests that the amount of workers available to support each retiree will fall from 5.2 today to 3.7 by 2020 and to a mere 3.0 by 2030.[8] With a decrease in workers and an increase in retirees, pressures are building for the American economy. The shortage of workers directly impacts our economy's productive power[8], which includes being able to provide for the medical and other economic needs of the retiring Baby Boomers.

Taking all of the elements that mark this generation, it is easy to see why the Millennials would be so hesitant to adopt the classic vision of the American dream as their own. A delicate balance exists between income and borrowing, this line drives spending and directly influences the economy. Having a feeling of income uncertainty and fear of debt both contribute to the average Millennials' minimalist standard of living.

Influencing the Economy

It's no surprise that the same generation that is saving and living at home with their parents or renting apartments, doesn't contribute to one of the leading industries in the country—home building. The housing industry is an important driver economic growth. Due to the current mortgage crisis, many Millennials have witnessed their Baby Boomer parents lose and/or downsize their homes. They had to observe as their parents' 401(k) plans were cut down, as they lost money on investments and arguably the most impactful, they had to watch as mom and dad spent their hard-earned savings on their post-secondary education. All of these happenings are psychologically and financially shaping Gen Y, making them the most risk-averse generation; saving money instead of investing it.

There is power in numbers, don't count the Millennials out just yet. As the largest generation prepares to accommodate with economic times, one thing should remain on their forefront: hope. According to a recent U.S. Bureau of Labor Statistics report, Millennials will make up the majority of the workforce by 2015, and by 2030 they will constitute 75% of the workforce.[12]

Standing at 86 million, Millennials will vastly influence the shift from the Great Recession to recovery. These contemporaries are shaping consumer behavior through their involvement in the digital world, including online shopping and socializing on networks such as Facebook, LinkedIn, and Twitter. They are evolving, becoming a powerful force in the country's resurgence and are on the path to saving our economy. Although progress may not be moving at the conventional pace, a transition is taking place right before our eyes. After all, we never did see Clark Kent turn into Superman.

Much has been said, written and certainly yet to be written about the Millennials. As Riverview Capital begins to work with many of the motivated members of this generation we will positively attest that they are engaged in society, politics, and business and well aware of their financial responsibilities. We are truly optimistic about what the Millennial generation will accomplish.

Sources:

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