

Economics Group

Special Commentary

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Non-Material Millennials

Executive Summary

Over the course of the past several years, there have been noticeable shifts in the composition of consumer spending. While there are both cyclical and structural factors that have influenced consumer spending decisions in recent years, in our view, a changing demographic landscape is playing a role in shaping the way consumers are spending today. In this report, we will highlight some of the unique spending patterns by sector that have emerged over the past several years and how these spending patterns align with unique tastes and preferences of particular age groups.

We highlight that one of the key factors affecting aggregate changes in consumer spending is related to distinct taste and preference changes among younger demographic groups. In particular, our examination of spending behavior for the largest and most diverse generation, Millennials (ages 18-34), shows that this generation tends to focus more on experiences such as dining out and spending on entertainment rather than owning a large number of assets relative to other generations. While more time is needed to draw any final conclusions on how different spending habits of the Millennials generation will be, initial evidence suggests that there are distinct differences that firms in the consumer space should recognize, especially now that Millennials are playing a more prominent role in the macroeconomy.

Millennials are playing a more prominent role in the economy.

Changing Patterns of Consumer Spending

Detailed annual consumer spending data released from the U.S. Department of Labor for 2015 indicate that average consumer spending per consumer unit rose 4.6 percent from 2014.¹ The fastest expenditure growth among the major categories was observed for *personal insurance and pensions, education expenditures, transportation and entertainment*. To gauge momentum behind some of these spending categories, we compared the year-over-year growth rate of each major consumer spending category to the change in spending for that category over the past three years. As can be seen in Figures 1 and 2, there is surprising consistency in the categories expanding the fastest, including *health care, rental housing, food away from home and entertainment*.²

¹ Consumer units are defined as financially independent households such as families, single individuals or two or more individuals living together.

² The Survey of Consumer Expenditures question related to health insurance coverage was changed between the 2013 and 2014 survey periods, thus year over year percent changes are not comparable between 2013 and 2014.



Figure 1

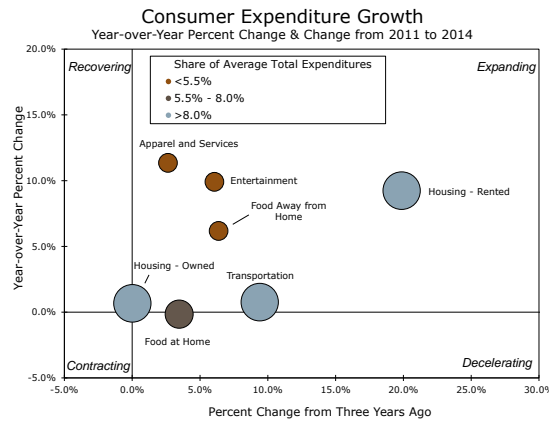
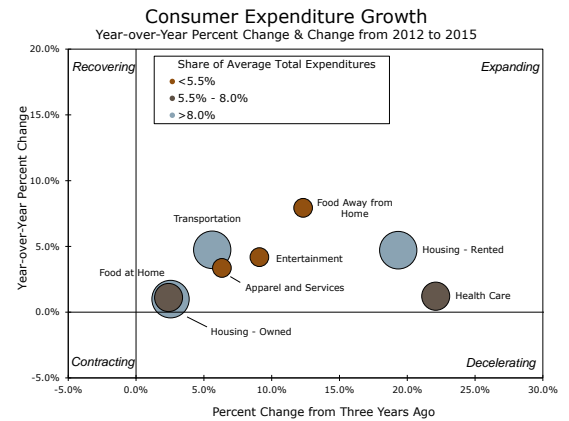


Figure 2



Source: U.S. Department of Labor and Wells Fargo Securities

Food away from home continues to expand as a consumption category.

Similar to the trends in 2014, *housing rented* and *food away from home* were among the fastest expanding categories of consumer spending. If we look back to the mid-point of the previous business cycle in 2005 for comparison, the two fastest expanding categories of consumer spending were *housing owned* and *food away from home*. Not only were these categories the fastest growing, but they accounted for a sizable share of total consumer spending. Thus, one obvious structural change in the current cycle is that *housing owned* did not rebound in 2015. As our group has documented, the choice to rent in the current cycle is not only tied to the large numbers of individuals who were displaced through the mortgage foreclosure process but also to the influx of younger individuals into the rental market as opposed to becoming first-time home buyers (Figure 3).³ Given that food away from home tends to exhibit cyclical behavior, accelerating as incomes rise, it is not surprising that with aggregate discretionary income rising that spending on *food away from home* and *entertainment* is expanding (Figure 2). That said, as we will see, there are some interesting trends across generations in the magnitude of spending spread through these categories that may have implications for the composition of future consumer spending.

Figure 3

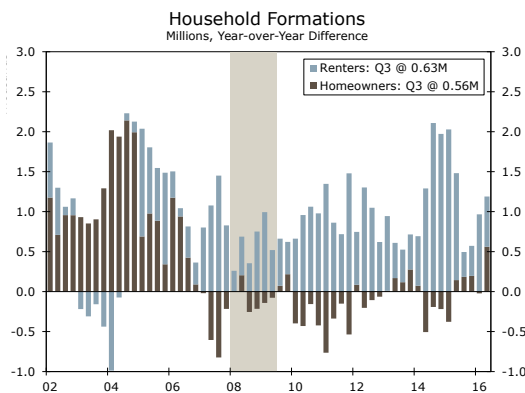
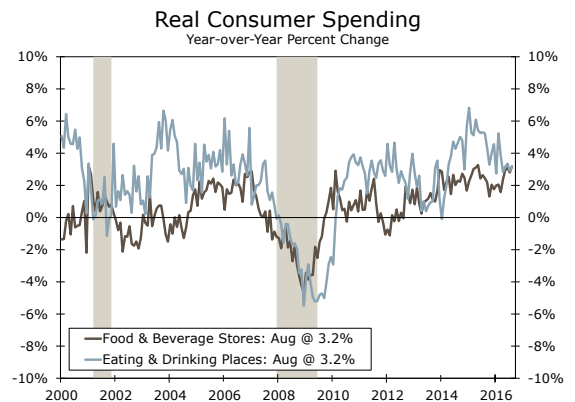


Figure 4



Source: U.S. Department of Commerce and Wells Fargo Securities

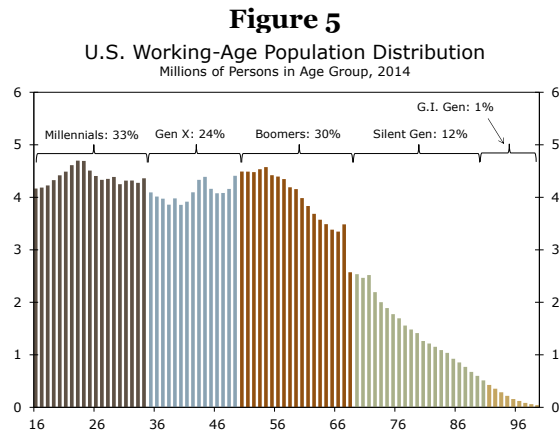
Demographic Changes in the Consumer Base

Before tackling specific types of consumer spending by age demographic, it is important to understand the changing composition of the American consumer base. As can be seen in Figure 5,

³ Vitner, M., Khan, A.R., Batcheller, M. (2016). *Housing Chartbook: October 2016*. Wells Fargo Economics Group.

the largest demographic is now the Millennials, as of 2015, with Baby Boomers making up the second-largest share at 30 percent.

For retailers attempting to navigate a changing consumer landscape, it is important to note both the structural and cyclical changes in consumer behavior especially in light of the fact that more Millennials are moving into the workforce and are beginning to see greater income growth. As of the September nonfarm payroll report, job growth for those 18-34 stood at 2.7 percent compared to 2.0 percent growth for all demographic groups. On the income side of the equation, income growth rose 5.6 percent for those 25-34 compared to 5.2 percent for the population as a whole.⁴ The fact that Millennials are not only the largest demographic group, but that they are now more actively engaged in the labor market and experiencing income growth, suggests that the tastes and preferences of this generation are becoming more important in moving the aggregate consumer spending needle.



Source: U.S. Department of Commerce and Wells Fargo Securities

One interesting aspect of the Millennial generation that may explain why their tastes and preferences are different may lie in the diversity of the cohort relative to other demographic groups. In fact, the Millennials are the most diverse generation among the current population.⁵ Evidence suggests that increases in a population’s diversity results in distinct shifts in tastes and preferences in everything from food consumption patterns to greater demand for multigenerational housing.⁶ As can be seen in Figure 6, the share of non-Hispanic Whites in the population has declined from 72 percent in the Baby Boomer generation to 56 percent for Millennials. Thus, as we will see in the next section, the distinct consumption patterns of the Millennial generation relative to prior generations are in part due to the greater diversity of this generation.

Millennials are the most diverse generation, by far.

⁴ A broader age range encompassing all Millennials is not available in the annual Census data. The income growth for the age range of 15-24 years is estimated to be 4.2 percent, however this result was not found to be statistically significantly different from zero.

⁵ Pew Research Center (2014). Millennials in Adulthood: Detached from Institutions, Networked with Friends.

⁶ Ballenger, N. and Blaylock, J.R. (2014). Consumer Driven Agriculture: Changing U.S. Demographics Influence Eating Habits. U.S. Department of Agriculture, Economic Research Service. Joint Center for Housing Studies of Harvard University. (2016). The State of the Nation’s Housing. Harvard University.

Figure 6

Generation Demographics			
	Baby Boomers	Generation X	Millennials
Date-of-Birth Range	1946-1964	1965-1980	1981-1997
Age Range as of July 2015	Ages 51-69	Ages 35-50	Ages 18-34
Percent Male	48%	50%	50%
Percent Female	52%	51%	50%
Percent Non-Hispanic White	72%	60%	56%
Percent Hispanic	11%	19%	21%
Percent Black or African American	12%	13%	15%
Percent Asian	5%	7%	7%
Percent Other Races/Two or More Races	1%	1%	2%

Source: U.S. Department of Commerce and Wells Fargo Securities

Structural Shifts in Spending Across Demographics

Millennials are often recognized by their unique spending habits, especially when compared to older generations. However, generational stereotypes can often skew the reality of generational consumer trends. Figure 7 and Figure 8 plot the expenditure growth data for Millennials and Generation X and Baby Boomers from this year's consumer expenditure survey and yield interesting results. The category of *food away from home* can immediately be identified as the Millennials' fastest expanding expenditure category. Likewise, it is not surprising that expenditures for *food at home* are decreasing as Millennials substitute dining in for dining out. In addition, the *food away from home* category is also expanding rather rapidly for Generation X and Baby Boomers, but not at quite the same pace. Another rapidly expanding category of spending for Millennials is on *entertainment*, which along with *food away from home* provides further evidence in support of survey data, which suggests the Millennial generation is more focused on experiences rather than owning a large number of physical assets.⁷

Millennials are more focused on experiences rather than physical assets.

Figure 7

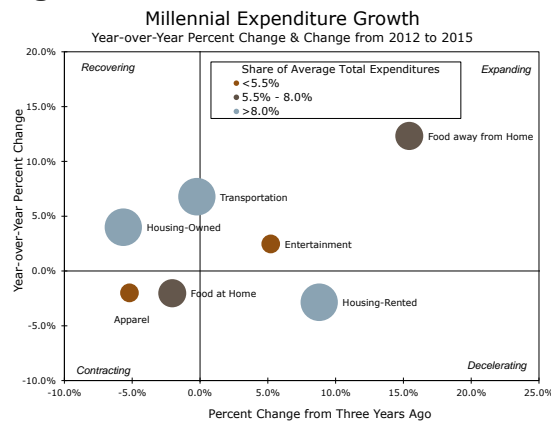
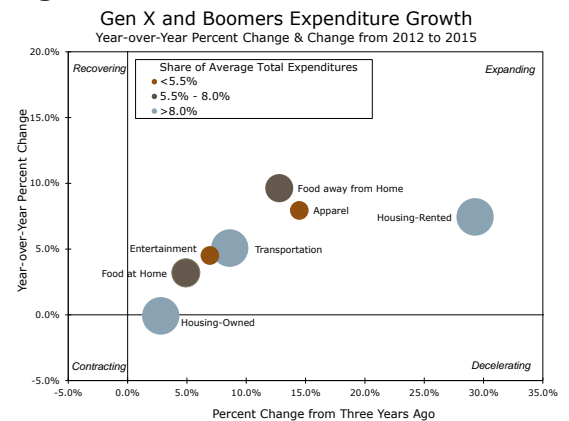


Figure 8



Source: U.S. Department of Labor and Wells Fargo Securities

A generational divide exists over the consumption of apparel.

Another interesting and noticeable generational difference relates to the consumption of *apparel*. Consumption of *apparel* is contracting for Millennials, while Gen X's and Boomers' purchases of *apparel* are accelerating. Other categories of contrast include more modest spending on the part of Millennials for *transportation* and decelerating spending on *housing rented*. While *housing owned* for Millennials appears to have started to recover last year, consistent with Figure 5 above, the data since the end of 2015 appear to show a slowdown in *housing owned* so far in 2016.

It is also interesting to note that within the Millennial generation a great divide exists between age cohorts that comprise the generation. For instance, we see that expenditures related to eating out is rapidly growing from a generational standpoint, however those under 25 are driving this trend

⁷ Eventbrite-Harris Survey. (2014). Millennials: Fueling the Experience Economy.

while those aged 25-34 are actually increasing their spending at the slowest pace among the age ranges (Figure 9). A more consistent trend among the age groups that comprise the Millennial generation, is regarding apparel expenditures, which for those under 25 and those between 25 and 34 decreased, year over year.

Figure 9

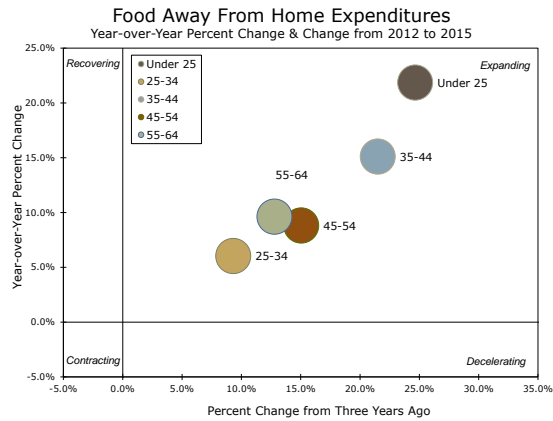
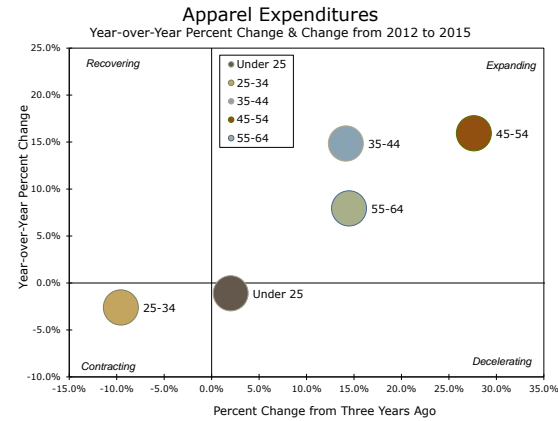


Figure 10



Source: U.S. Department of Labor and Wells Fargo Securities

Conclusion: Early Signs of Structural Changes

It is difficult to say for certain how much of the overall trends in consumer spending by category is driven by pure demographic change and those driven by cyclical factors. That said, there is clear evidence of increased diversity of the Millennial generation relative to prior age demographics, which suggests, based on prior evidence, a structural change in the tastes and preferences of the population. It is clear that the pace of consumer expenditures expanding the fastest for the Millennial generation includes *food away from home* and *entertainment*, indicative of a generation more focused on experiences rather than physical assets, such as owning a home. While more time is needed to draw any final conclusions on how different spending habits of this generation will be, initial evidence suggests that there are distinct differences that firms in the consumer space should recognize, especially now that Millennials are playing a more prominent role in the macroeconomy.

Firms in the consumer space should pay attention to the changing consumer landscape.

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