



EconLowdown—Little Rock

Generations X and Y: Facing Economic and Financial Challenges in the Shadow of the Baby Boom

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These comments do not necessarily represent the views of the Federal Reserve Bank of St. Louis or the Federal Reserve System.



Generations X and Y: Facing Economic and Financial Challenges in the Shadow of the Baby Boom

- **Why generations matter for economic and financial outcomes**
- **Who are Generations X and Y?**
- **Opportunities for Gen X and Gen Y**
 - **Labor markets: You'll benefit from scarce competition.**
 - **Asset markets: We need you to buy our houses and stocks.**
- **Economic and financial challenges facing the members of Gen X and Gen Y**
 - **Damage from the Great Recession**
 - **Can living standards keep rising?**
 - **Fiscal and environmental sustainability**



Why Generations Matter for Economic and Financial Outcomes

- **Think of generations as cohorts (groups) that move through their lives side-by-side—your peer group.**
- **New generations affect overall supply and demand.**
 - **A large supply of workers may push down wages; a large number of savers may push down interest rates.**
 - **A large demand for education, employment, housing, or social insurance will affect political choices.**
- **Each generation is unique, shaped by social, cultural, and political experiences.**
 - **Historical episodes affect attitudes and behaviors.**
 - **Each generation will have its turn in charge of the economy and the political process.**



Generations Since 1900

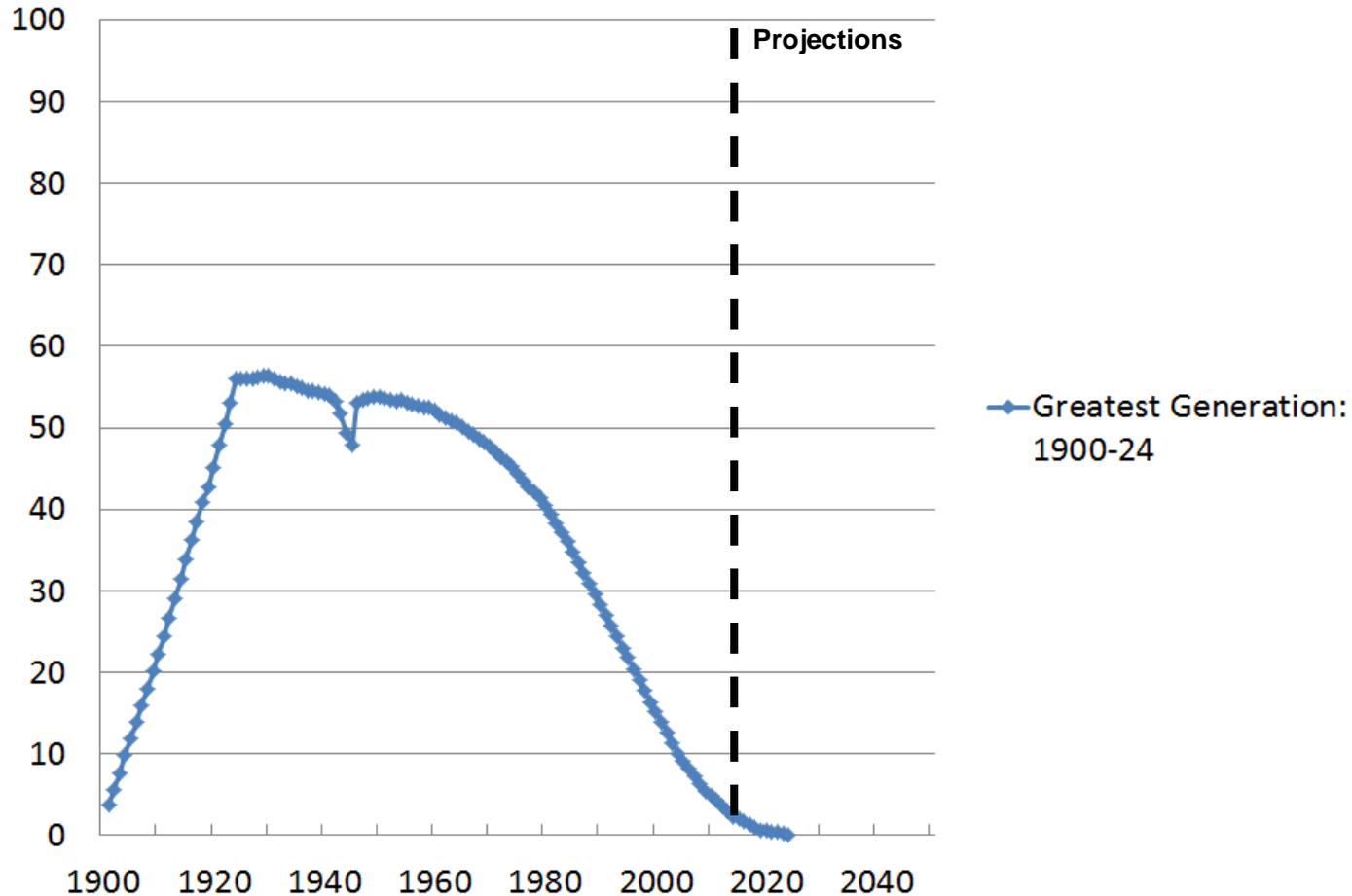
	<u>Currently</u>	
■ The “Greatest Generation,” born 1900-24 (included people who fought in WW II)	90-114 years old	
■ The “Silent Generation,” born 1925-45 (Depression and WW II)	69-89	Big winners
■ “Baby Boomers,” born 1946-64	50-68	Big losers
■ “Generation X,” born 1965-80	34-49	?
■ “Generation Y” (also called “Millennials” or “Echo Boomers”), born 1981-2000	14-33	?
■ The “Post-Millennial Generation,” born after 2000	Under 14	?



Generations Since 1900: How Big?

Millions of
people

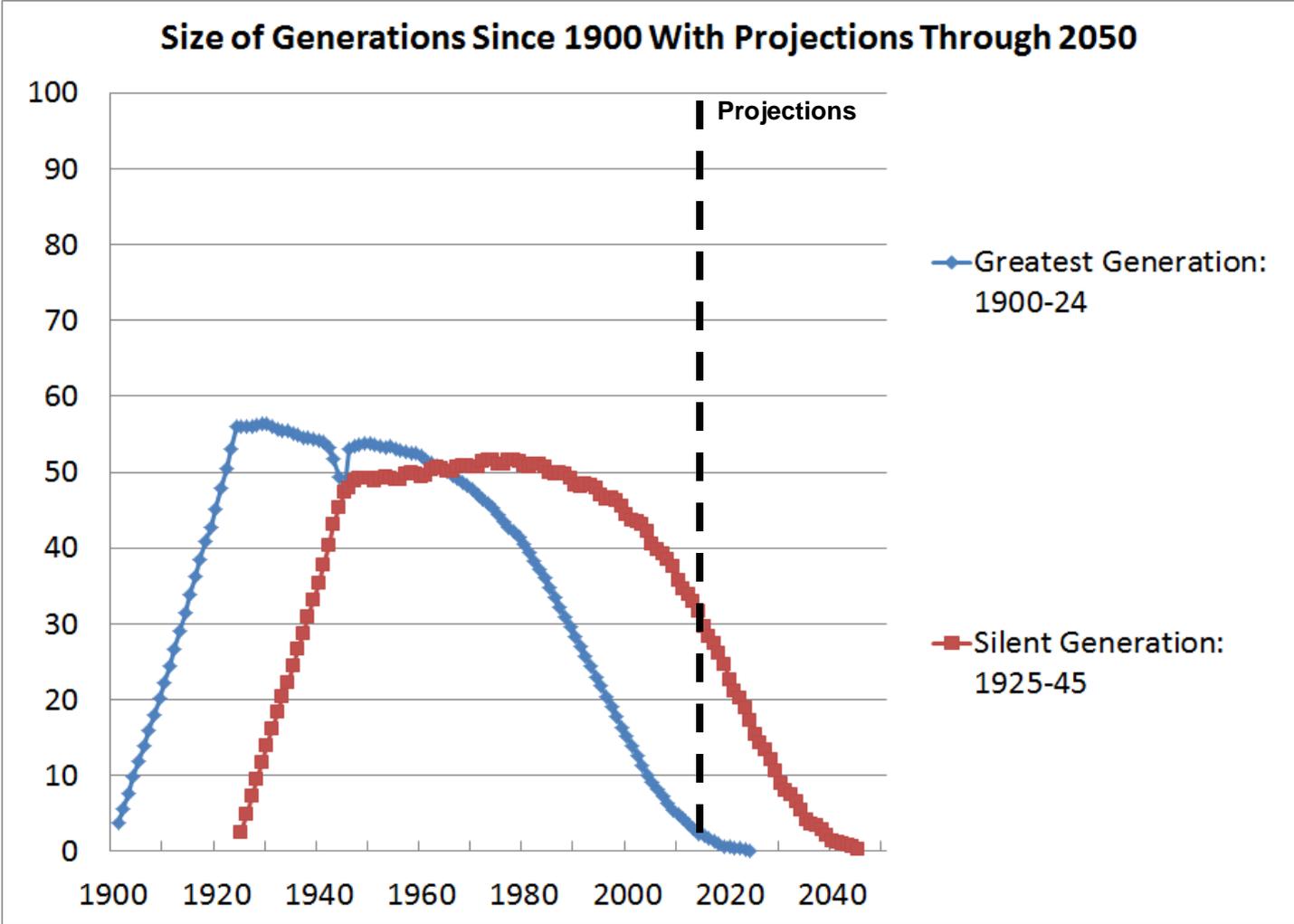
Size of Generations Since 1900 With Projections Through 2050



Source: Census Bureau



Generations Since 1900: How Big?

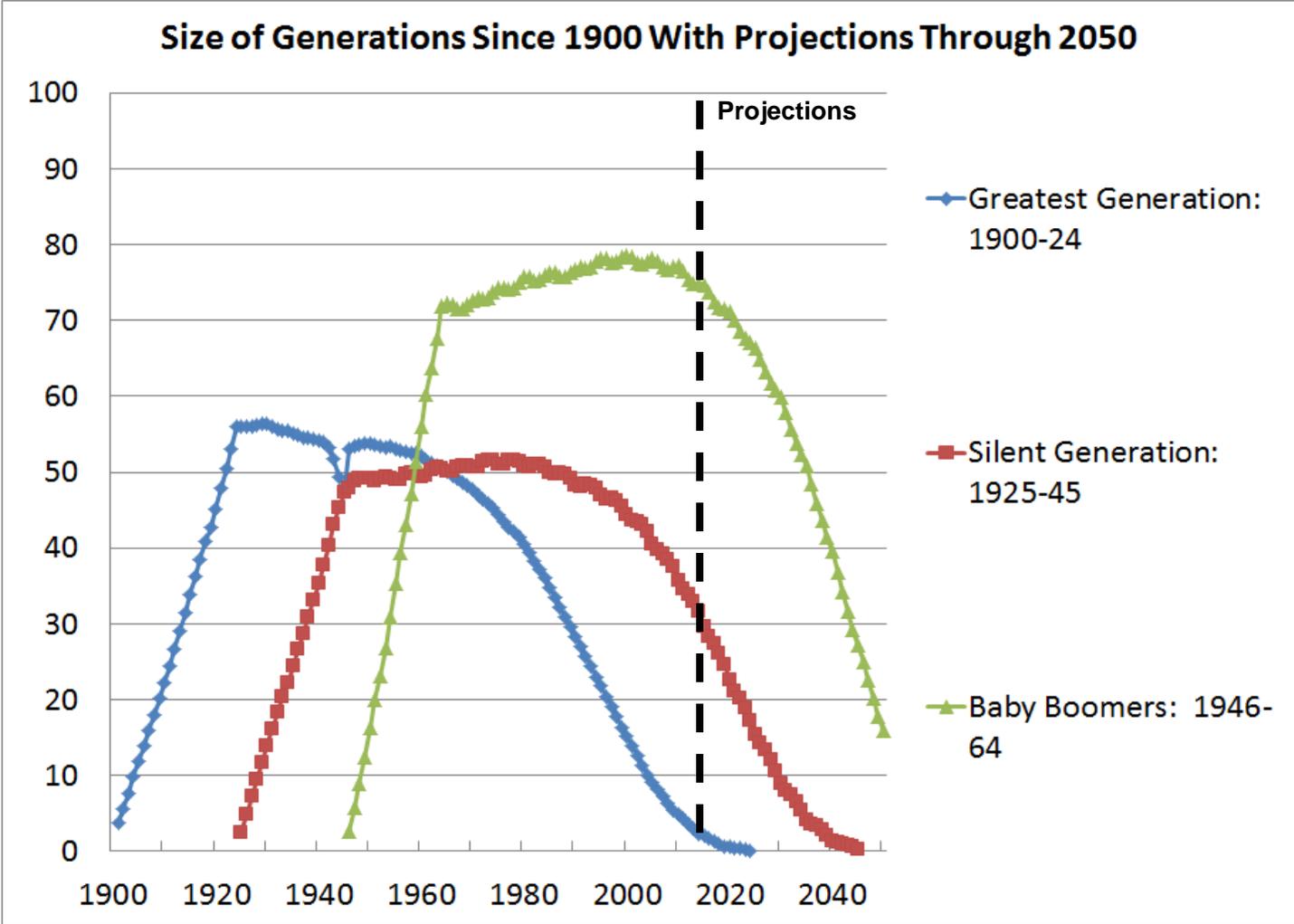


Millions of people

Source: Census Bureau



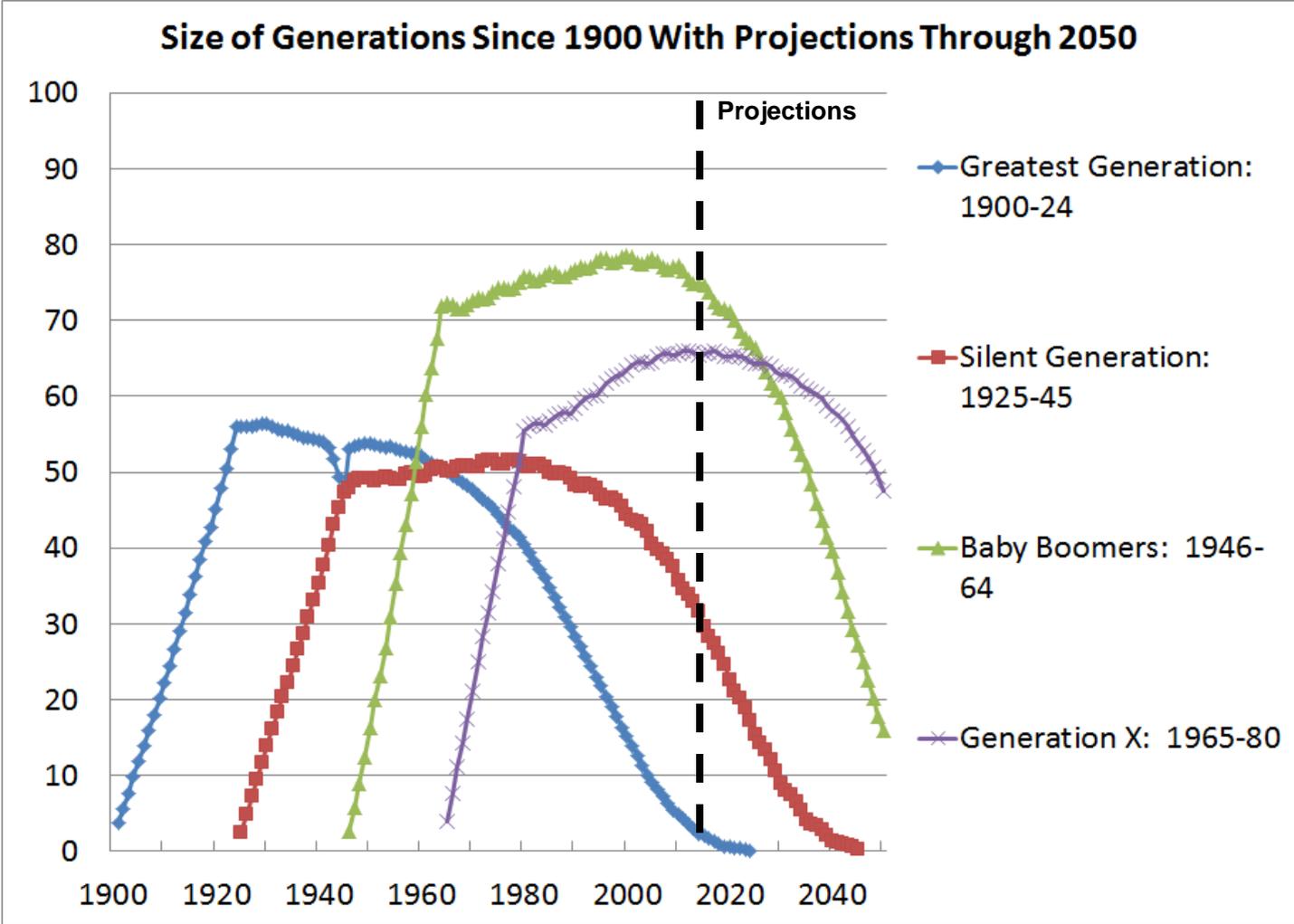
Generations Since 1900: How Big?



Source: Census Bureau



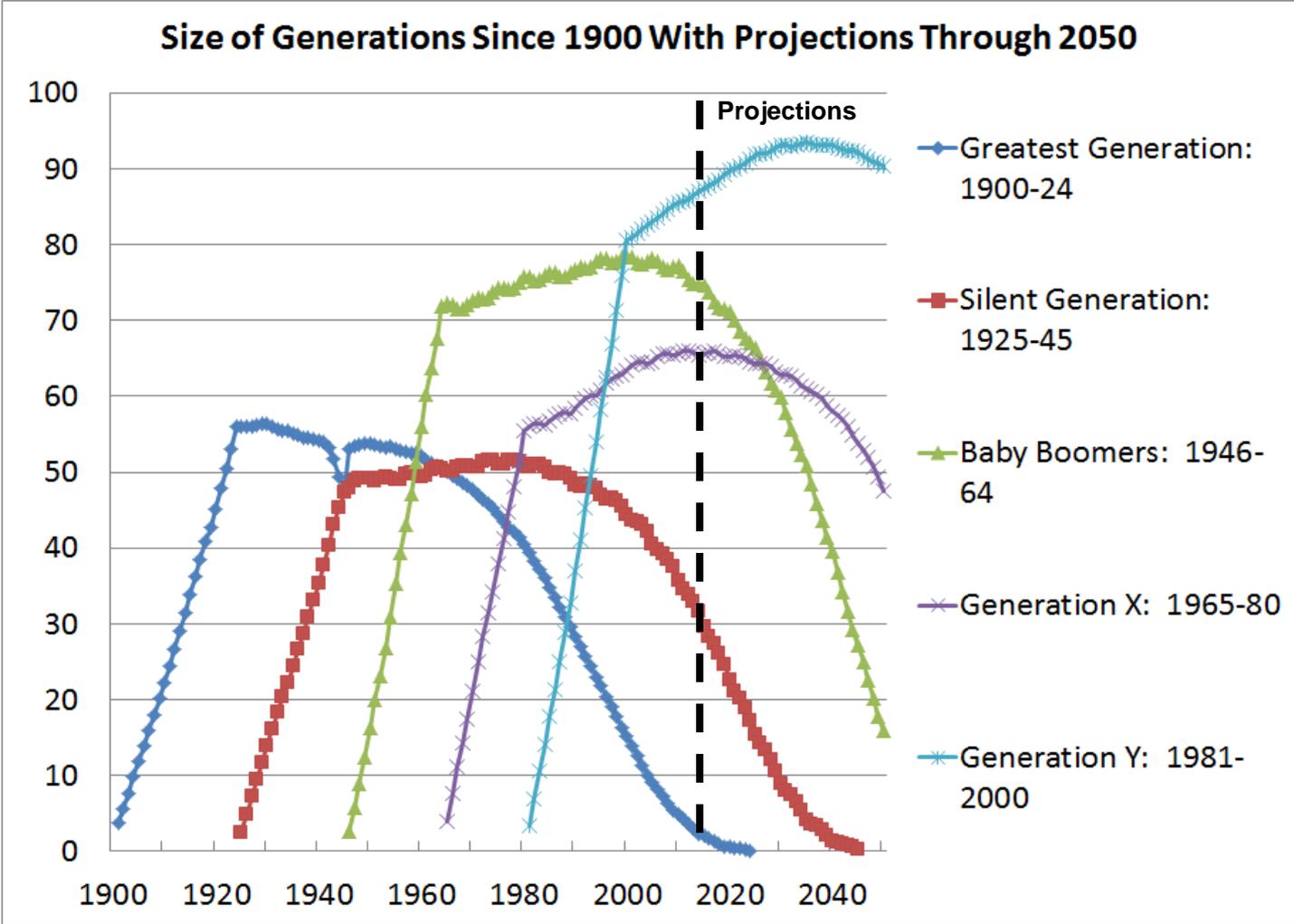
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Source: Census Bureau



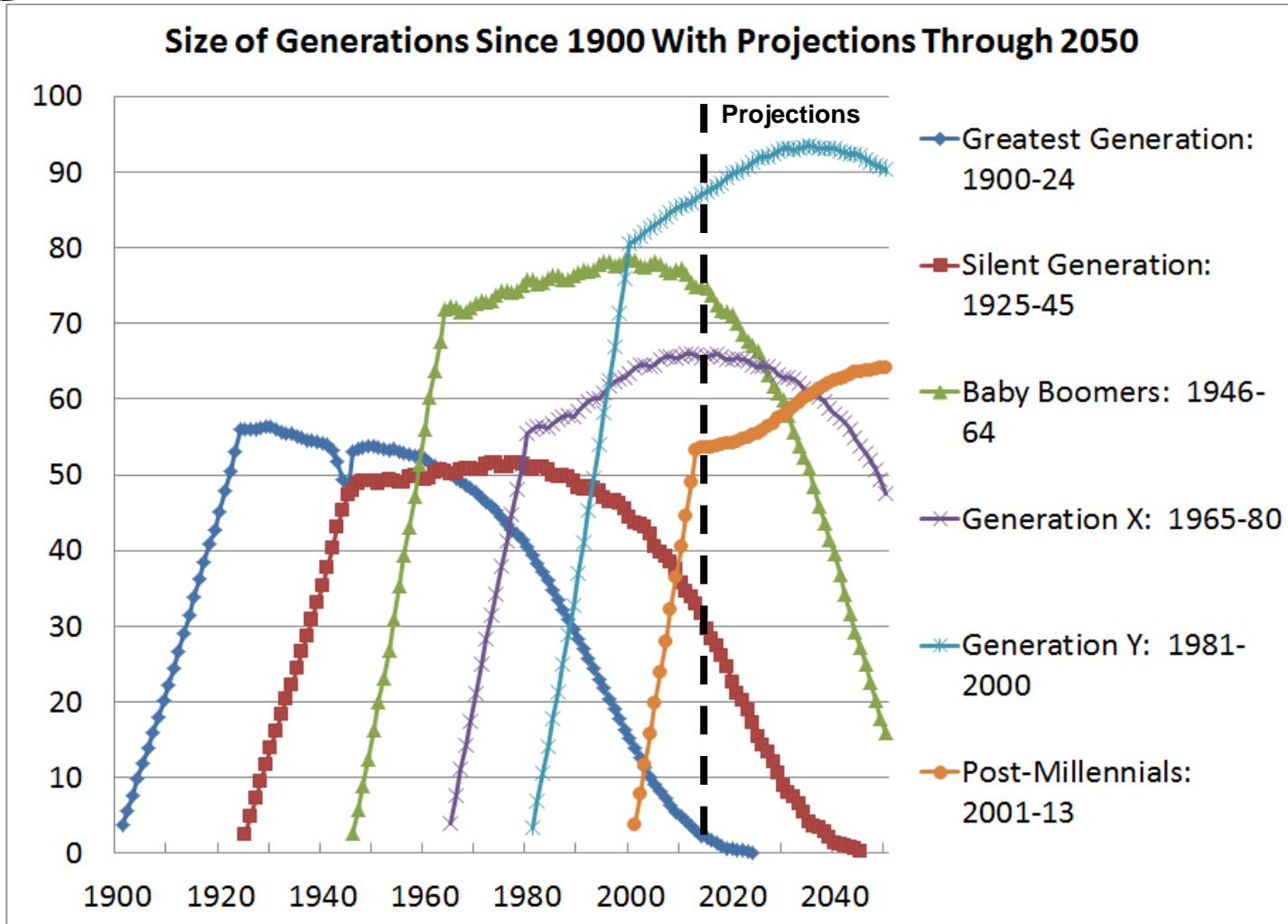
Generations Since 1900: How Big?



Source: Census Bureau



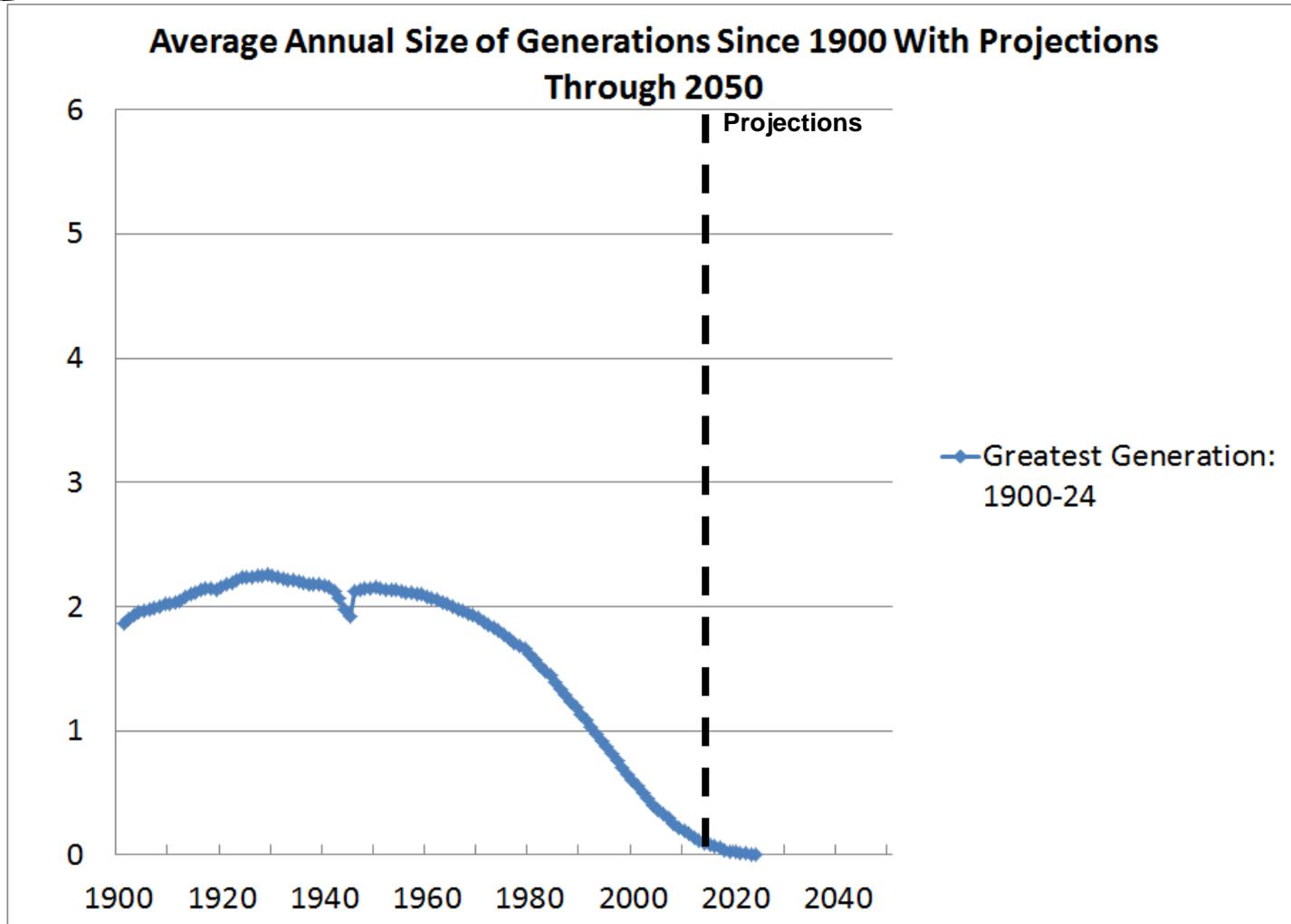
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Source: Census Bureau



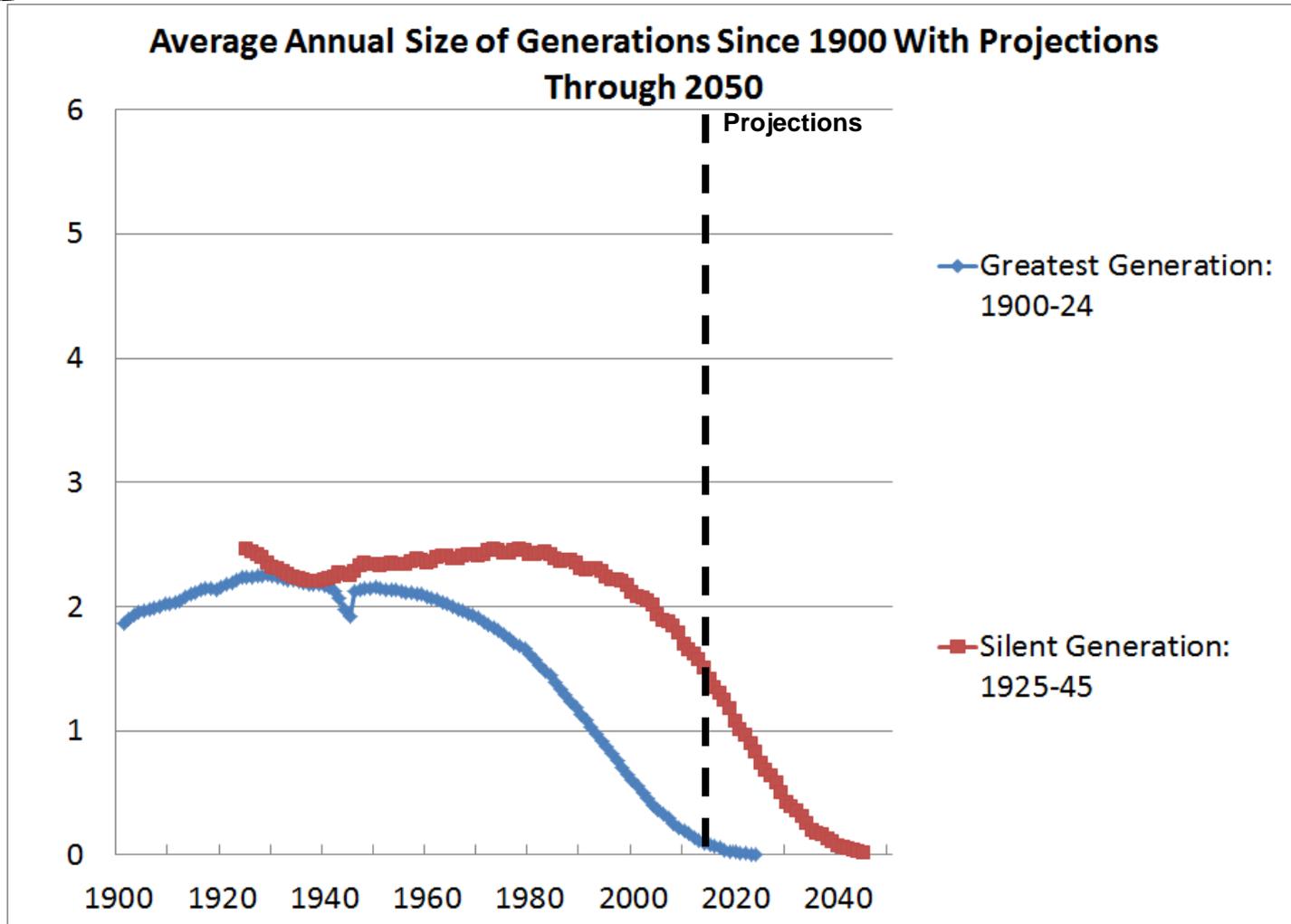
Generations Since 1900: Adjusting for Different Generation Lengths



Source: Census Bureau



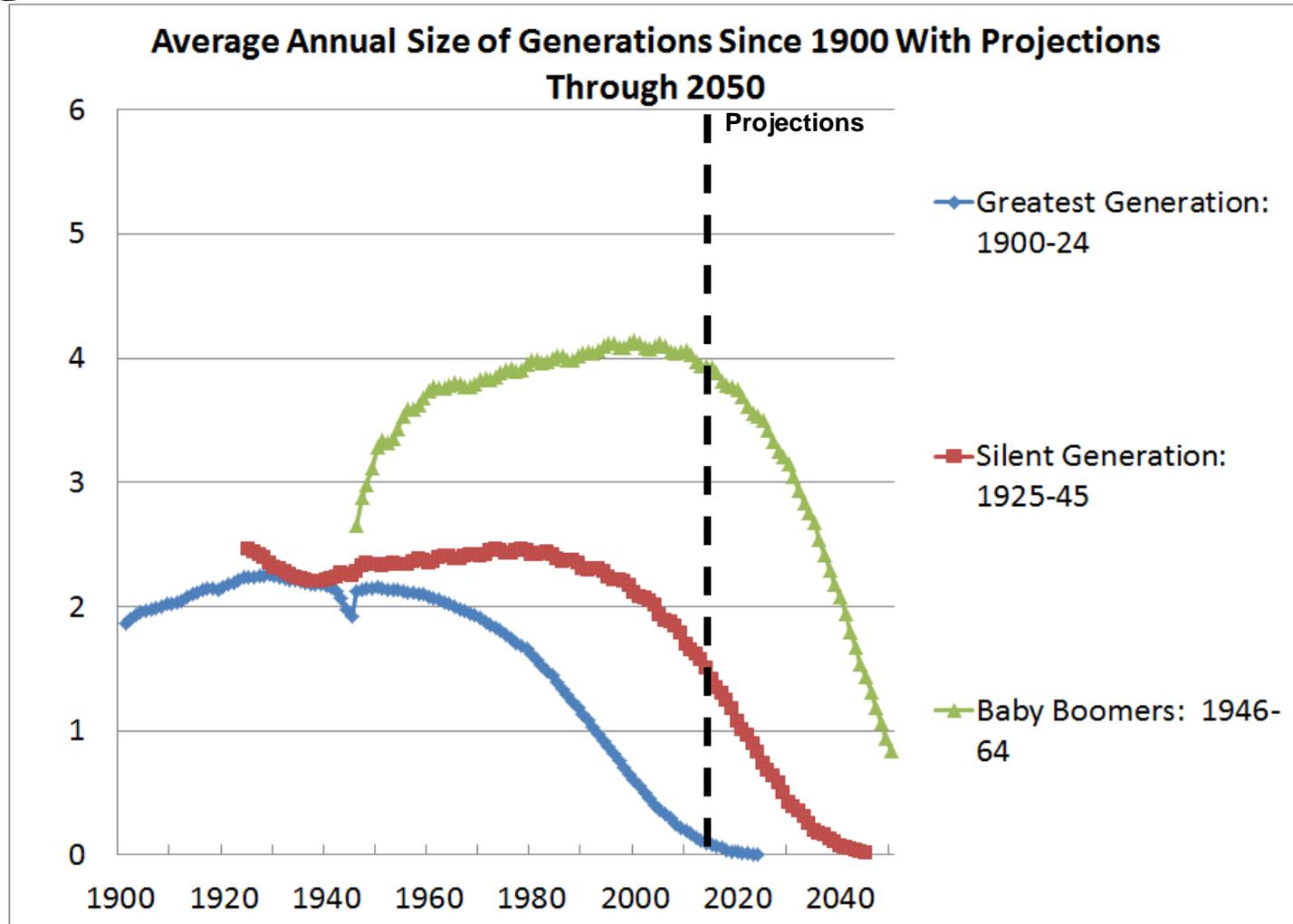
Generations Since 1900: Adjusting for Different Generation Lengths



Source: Census Bureau



Generations Since 1900: Adjusting for Different Generation Lengths

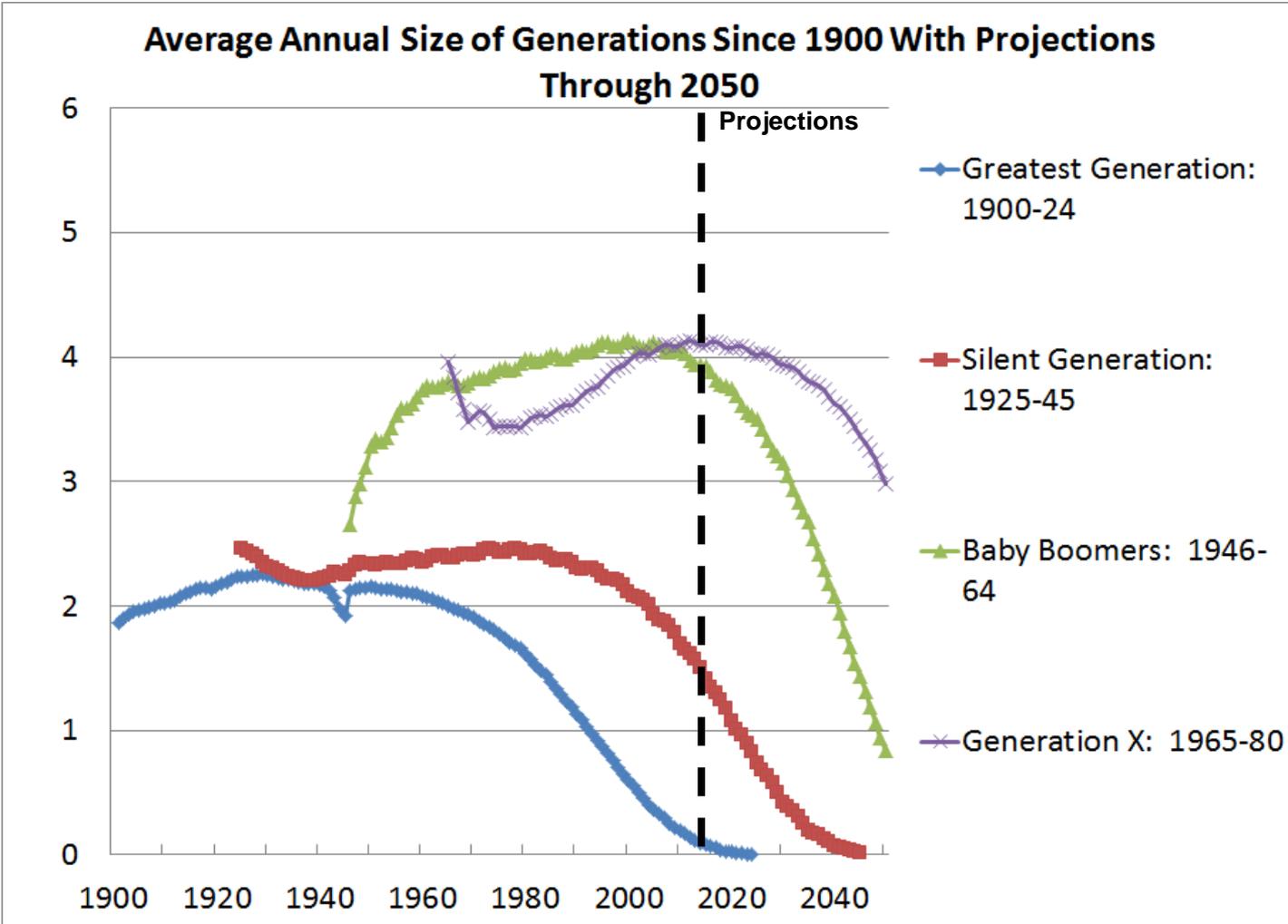


Source: Census Bureau



Generations Since 1900: Adjusting for Different Generation Lengths

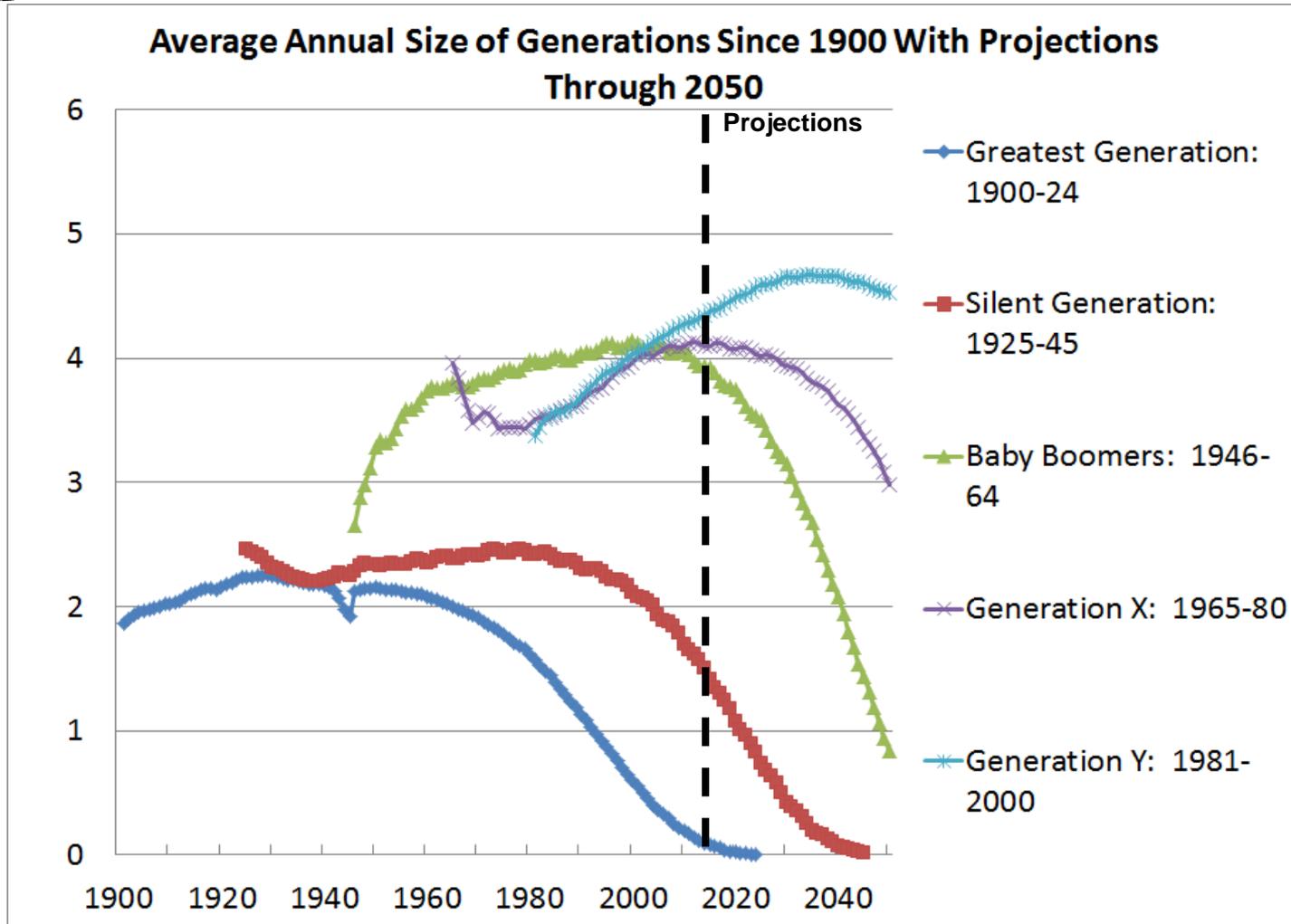
Millions of people



Source: Census Bureau



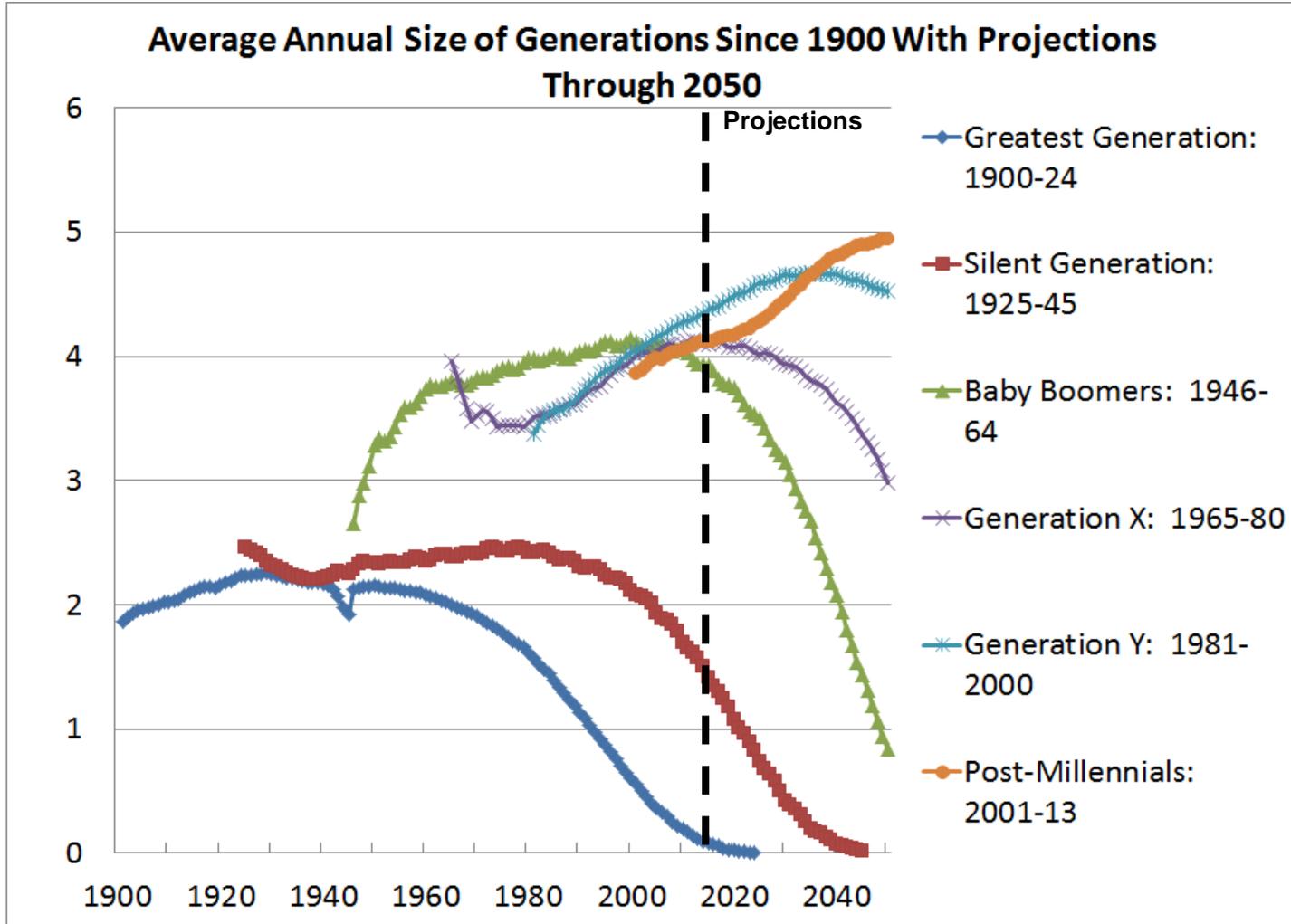
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Source: Census Bureau



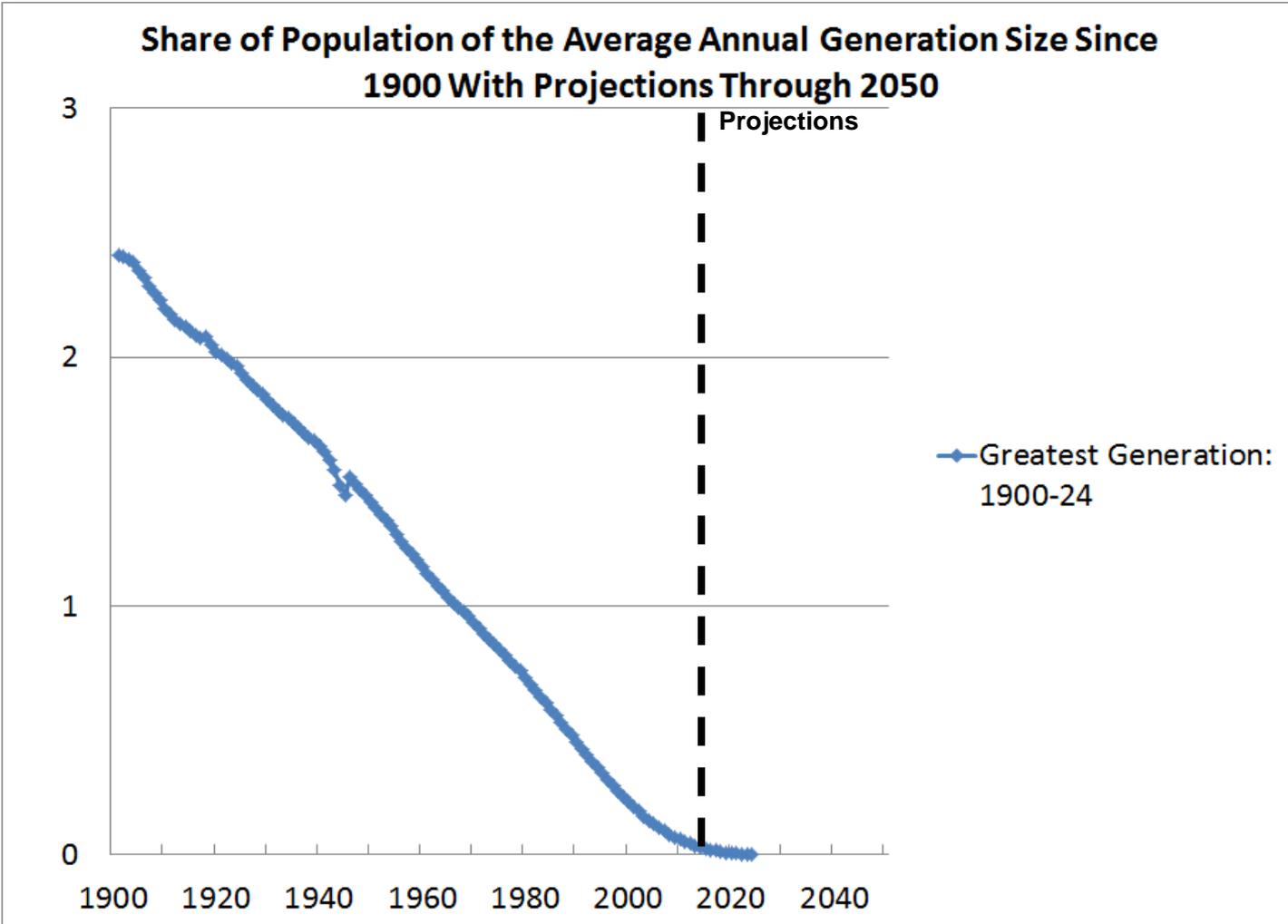
Generations Since 1900: Adjusting for Different Generation Lengths





Generations Since 1900: Adjusting for Different Generation Lengths and Growing Overall Population

Percent of overall population

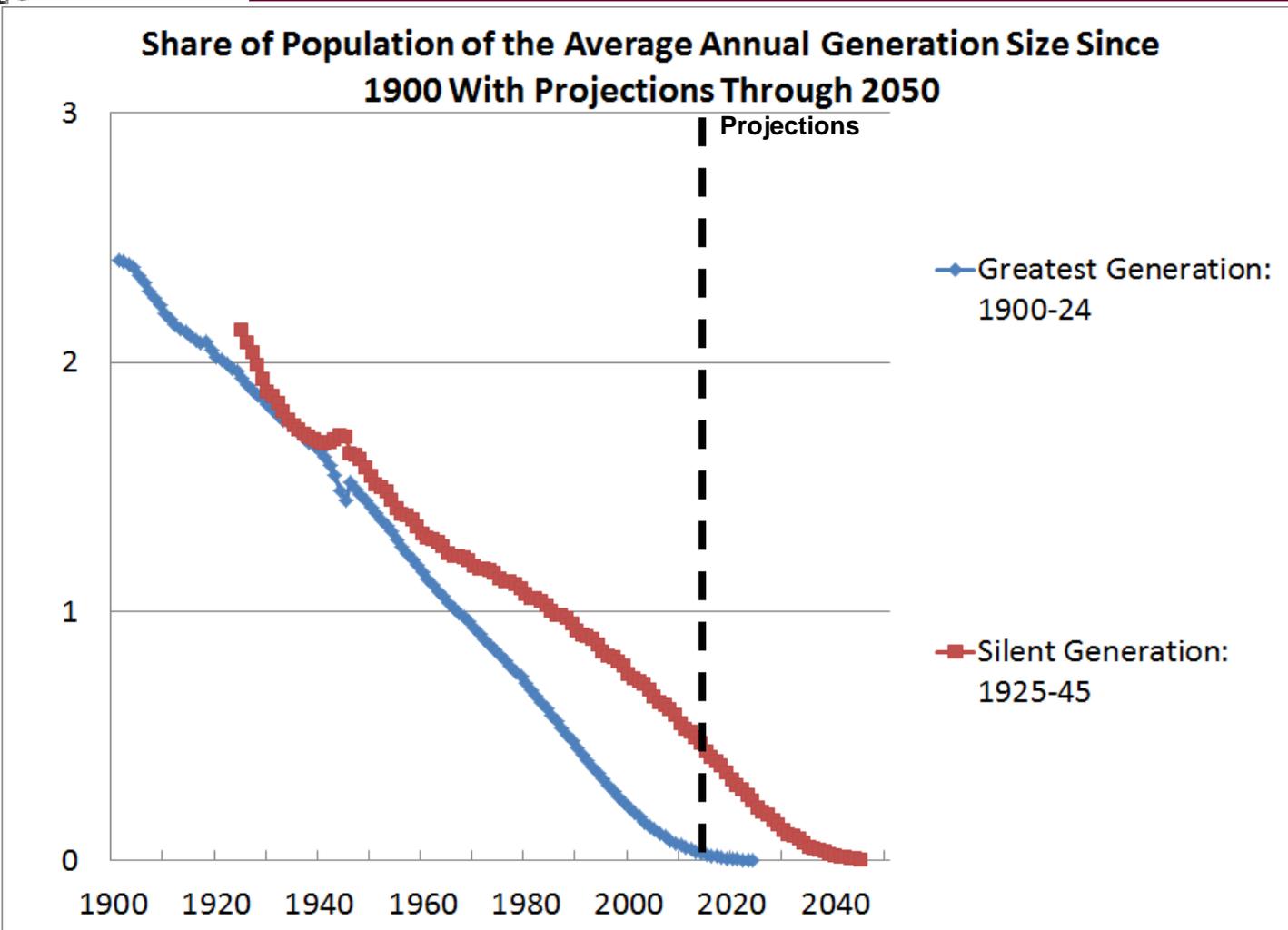


Source: Census Bureau



Generations Since 1900: Adjusting for Different Generation Lengths and Growing Overall Population

Percent of overall population

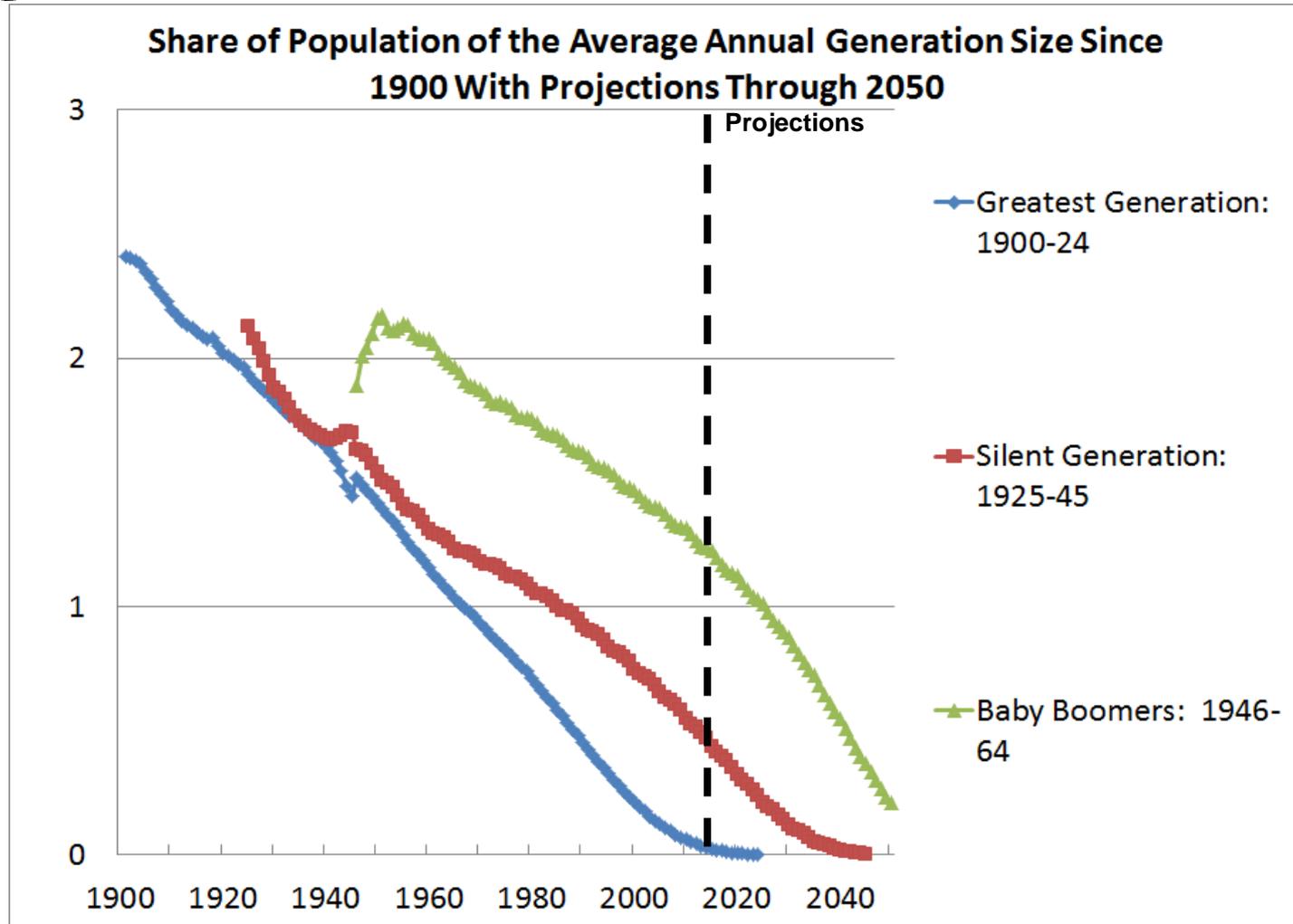


Source: Census Bureau



Generations Since 1900: Adjusting for Different Generation Lengths and Growing Overall Population

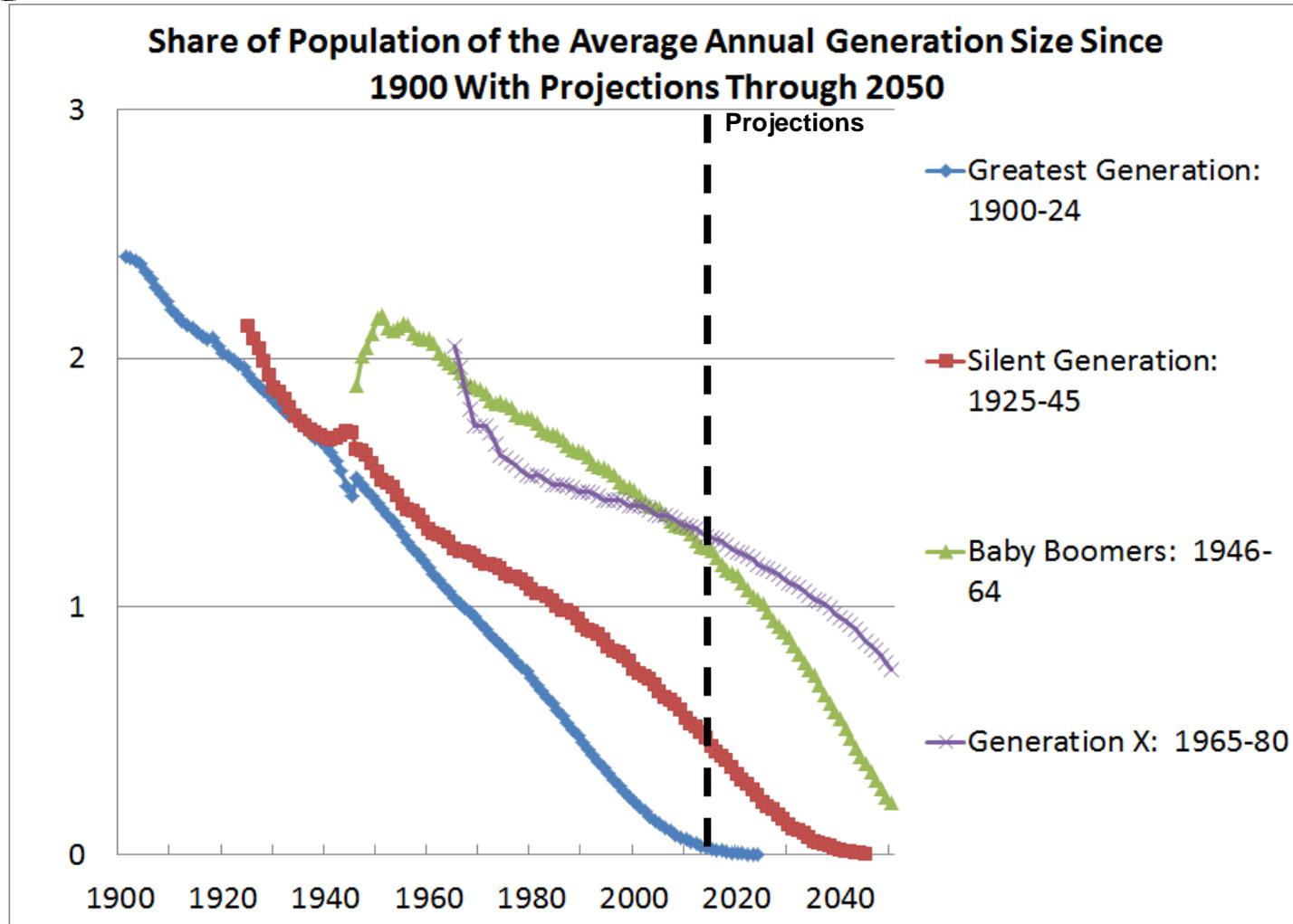
Percent of overall population



Source: Census Bureau



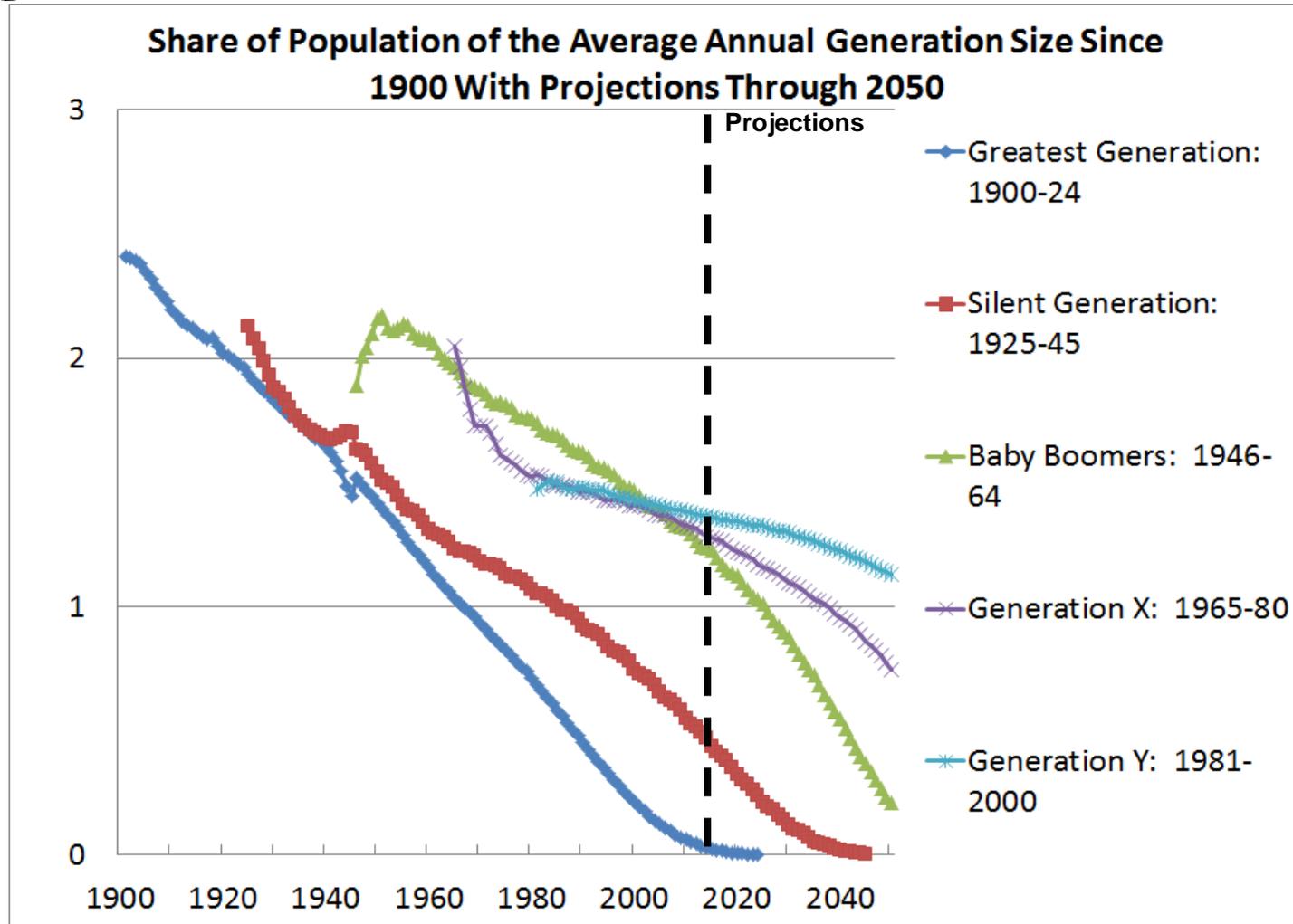
Generations Since 1900: Adjusting for Different Generation Lengths and Growing Overall Population



Source: Census Bureau



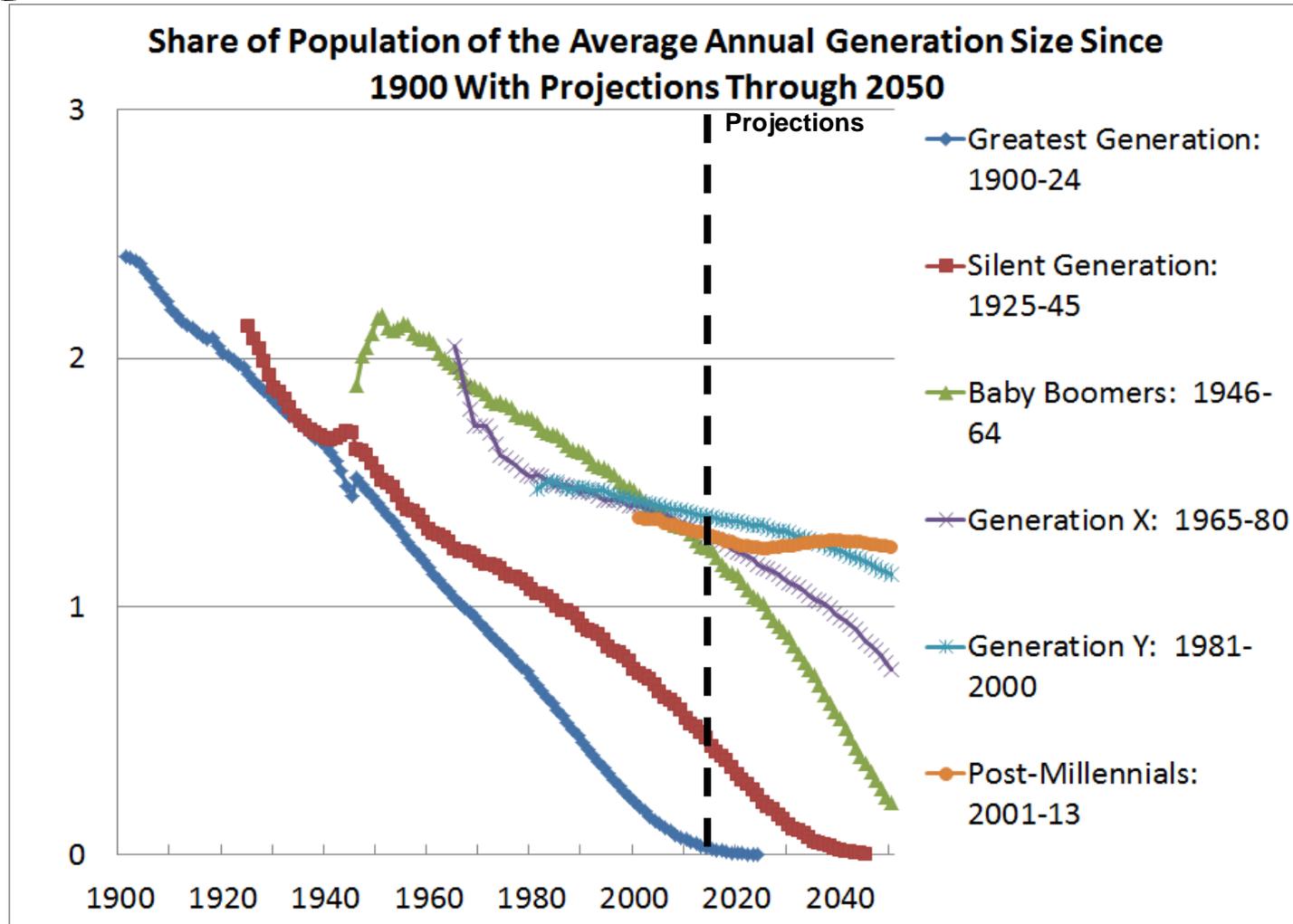
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Source: Census Bureau



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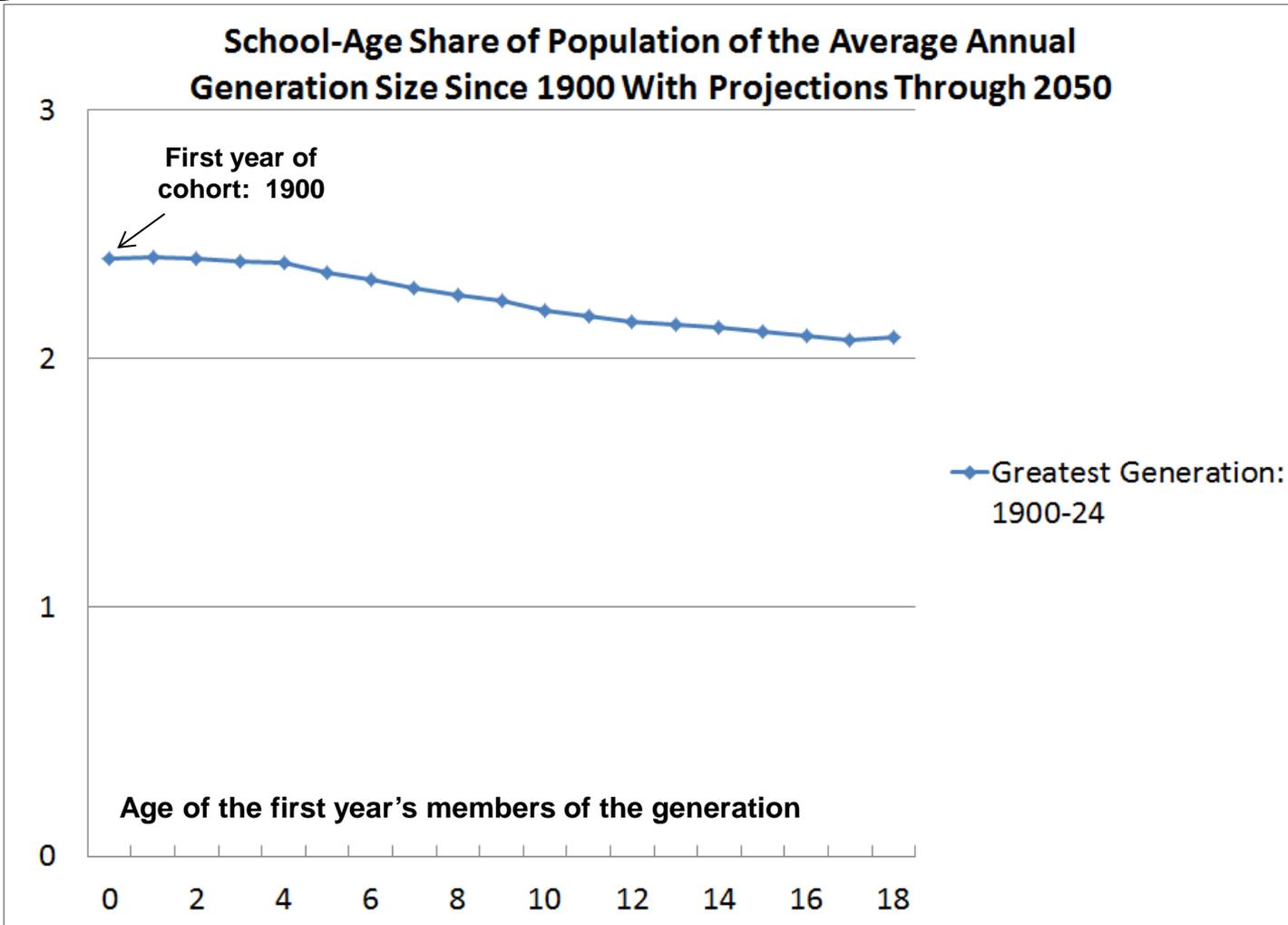


Source: Census Bureau



Life-Cycle Stages: Which Generation Had the Largest School-Age Population?

Percent of overall population

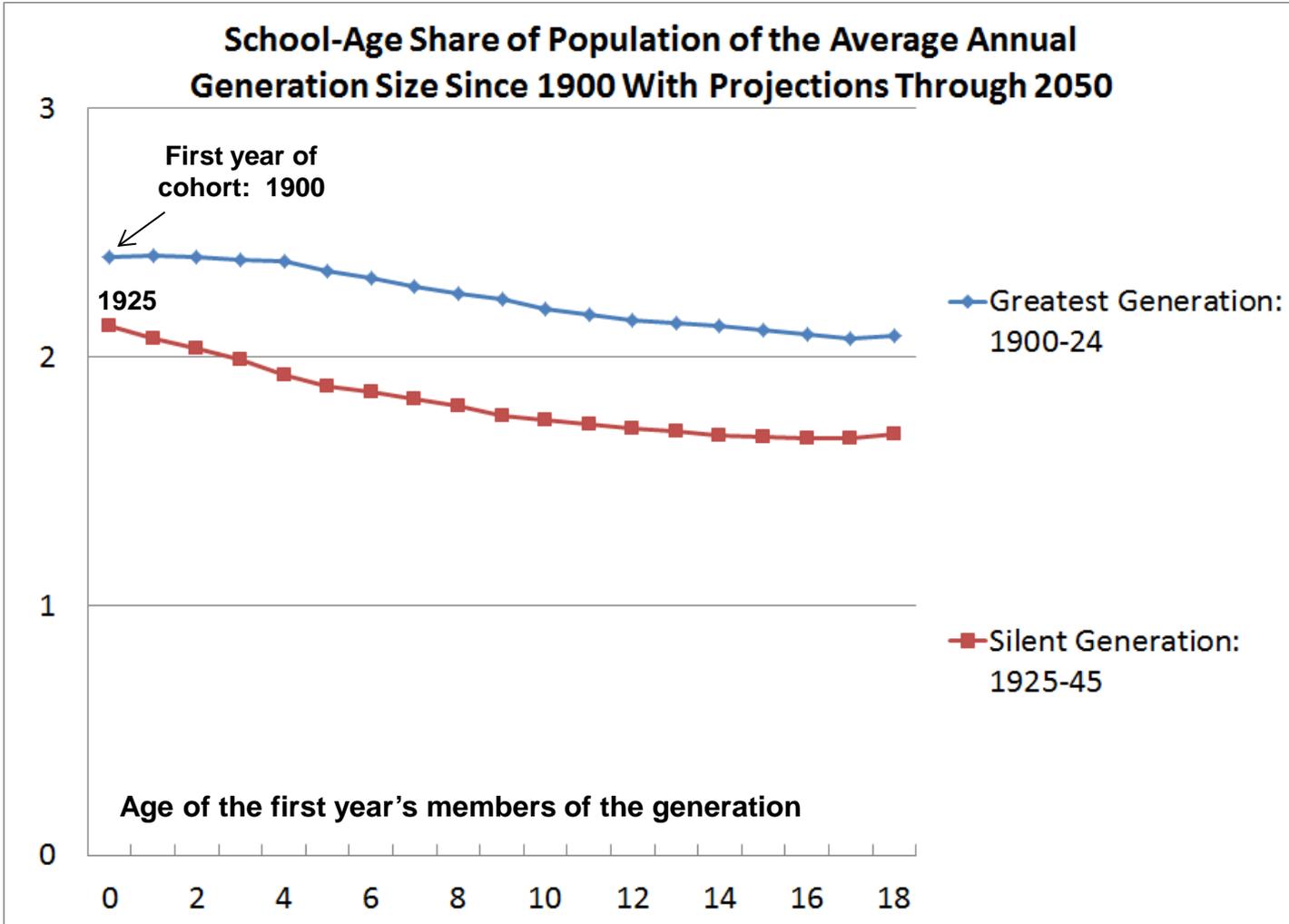


Source: Census Bureau



Life-Cycle Stages: Which Generation Had the Largest School-Age Population?

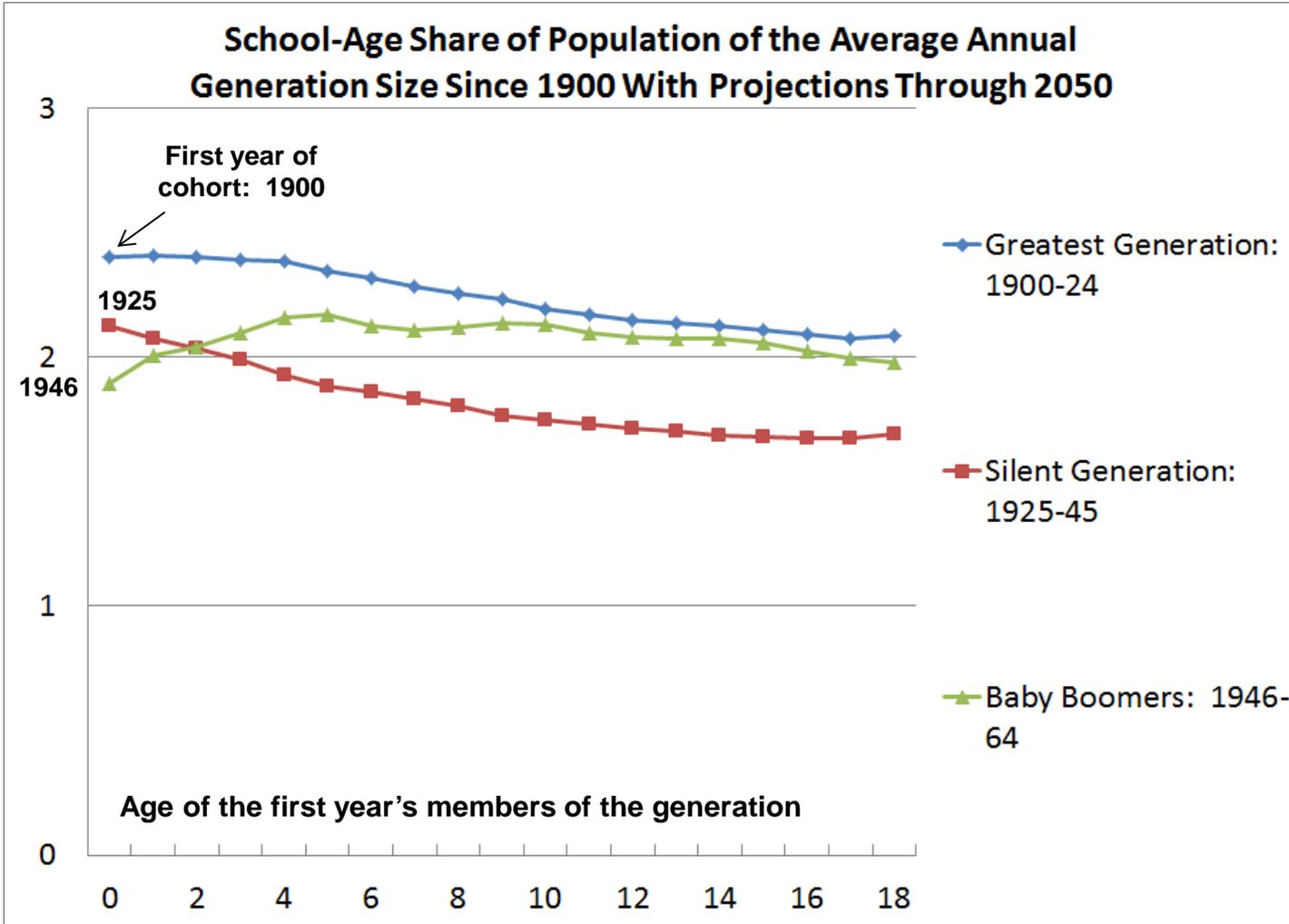
Percent of overall population



Source: Census Bureau



Life-Cycle Stages: Which Generation Had the Largest School-Age Population?



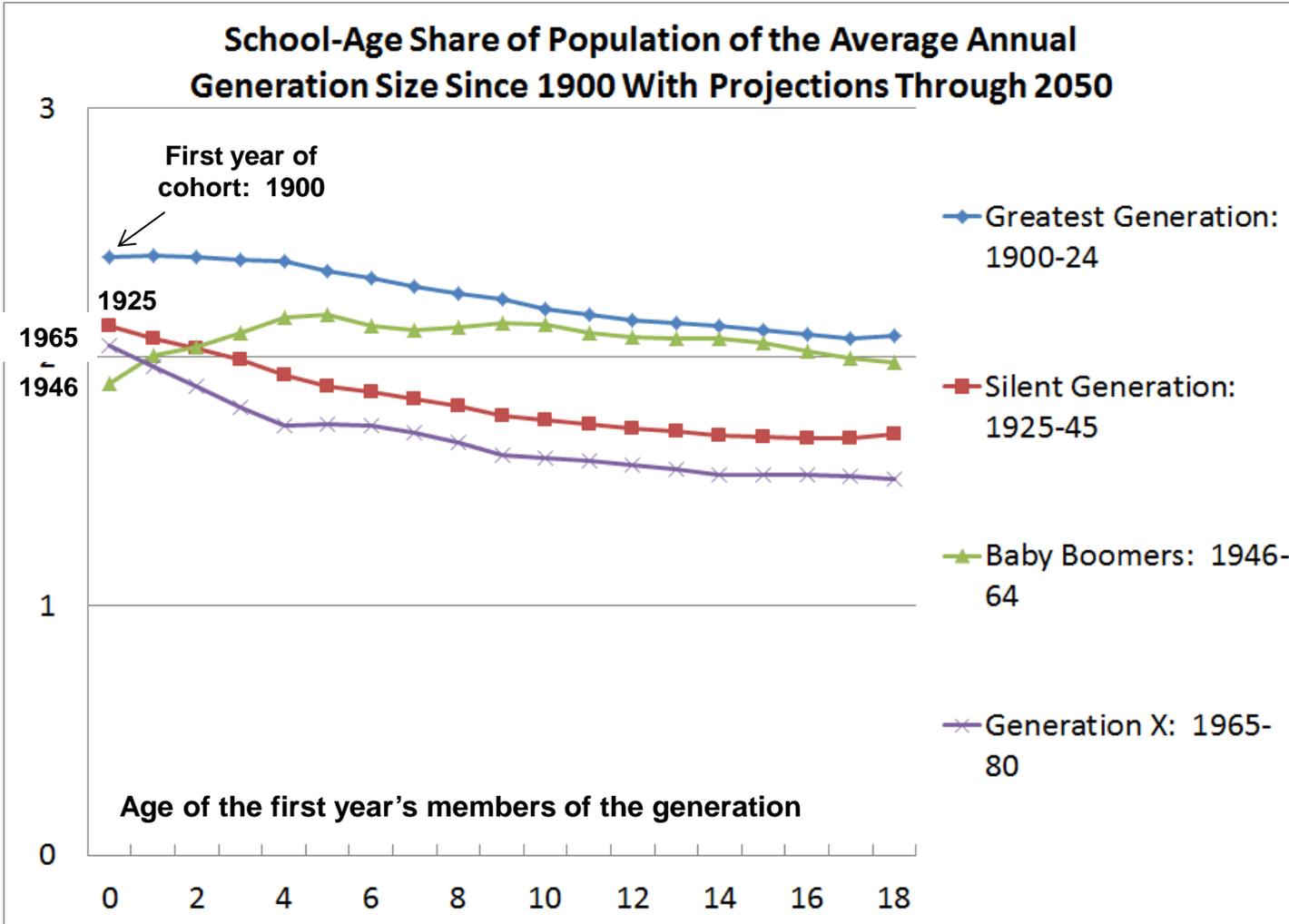
Percent of overall population



Source: Census Bureau



Life-Cycle Stages: Which Generation Had the Largest School-Age Population?



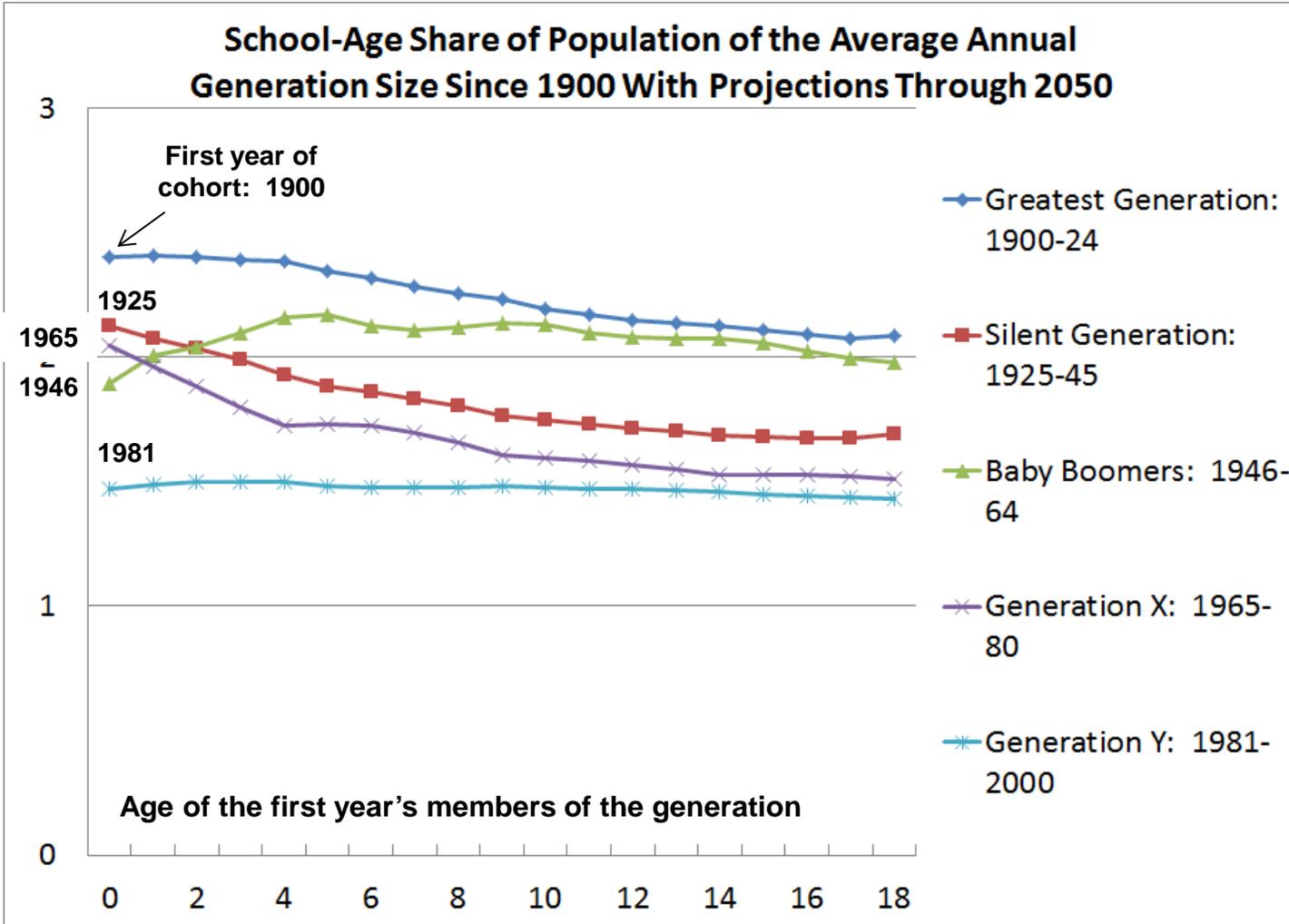
Percent of overall population



Source: Census Bureau



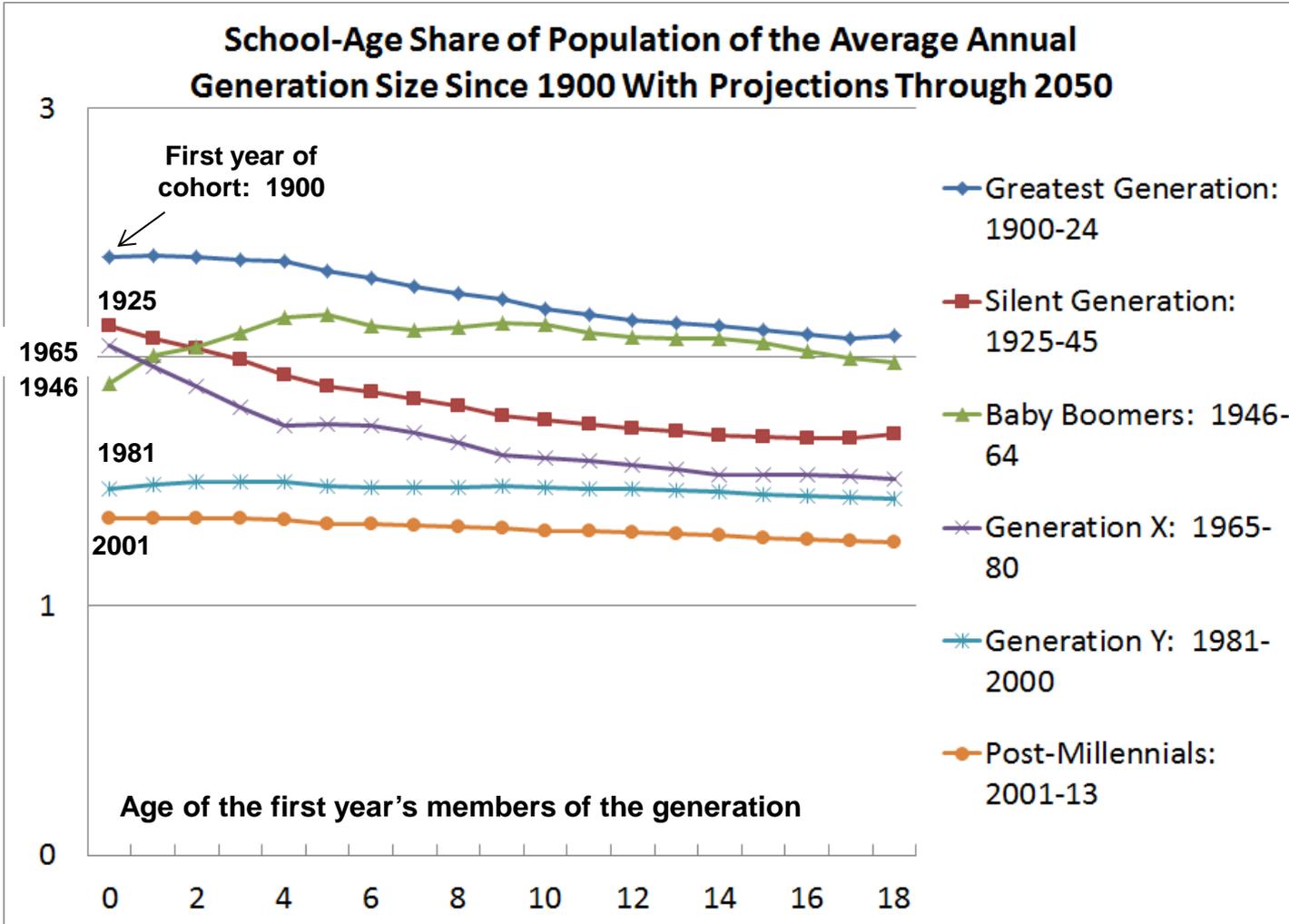
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Source: Census Bureau



Life-Cycle Stages: Which Generation Had the Largest School-Age Population?

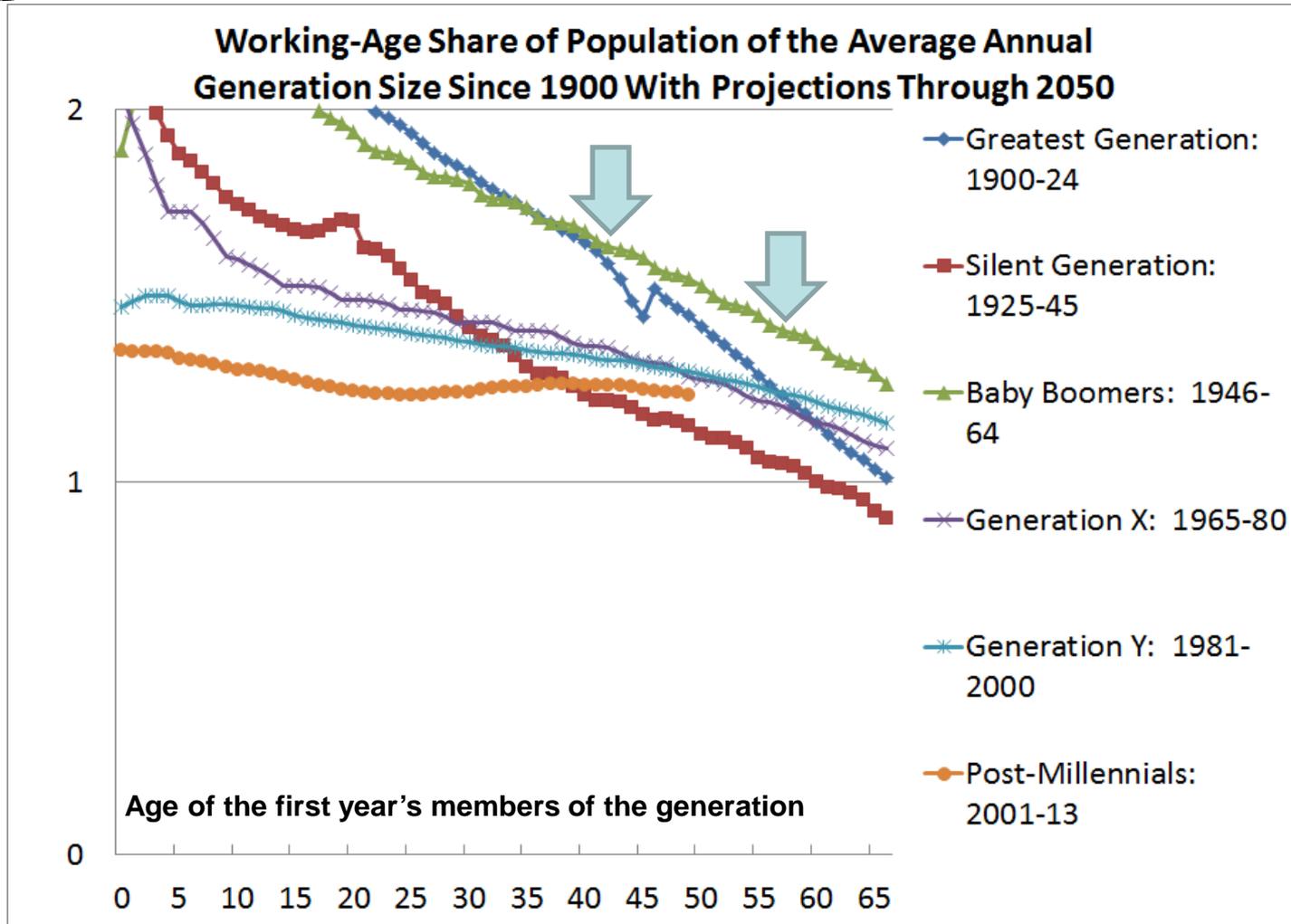


Percent of overall population

Source: Census Bureau



Life-Cycle Stages: Which Generation Had the Largest Working-Age Population?

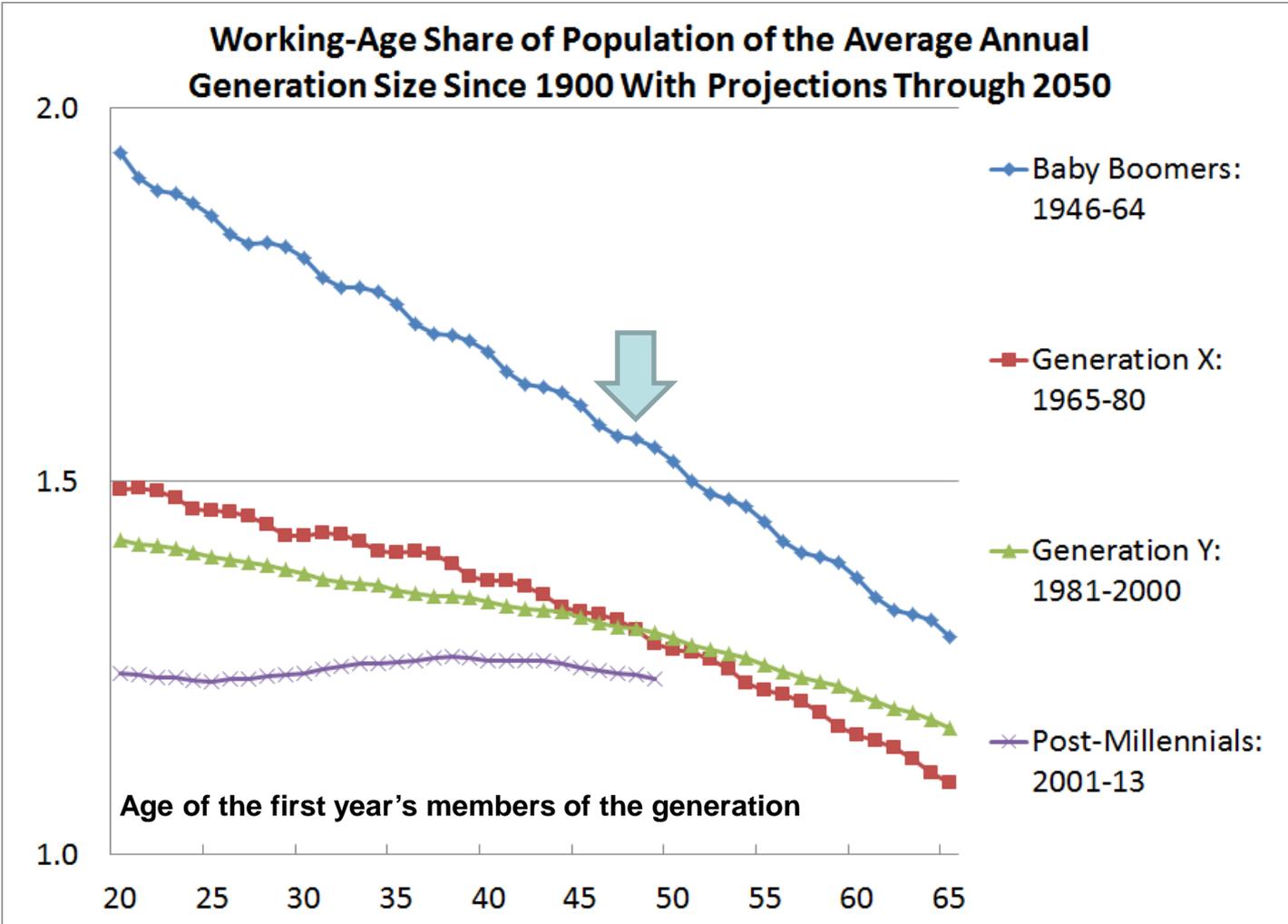


Source: Census Bureau



Generations X and Y and Post-Millennials Will Be in Scarce Supply

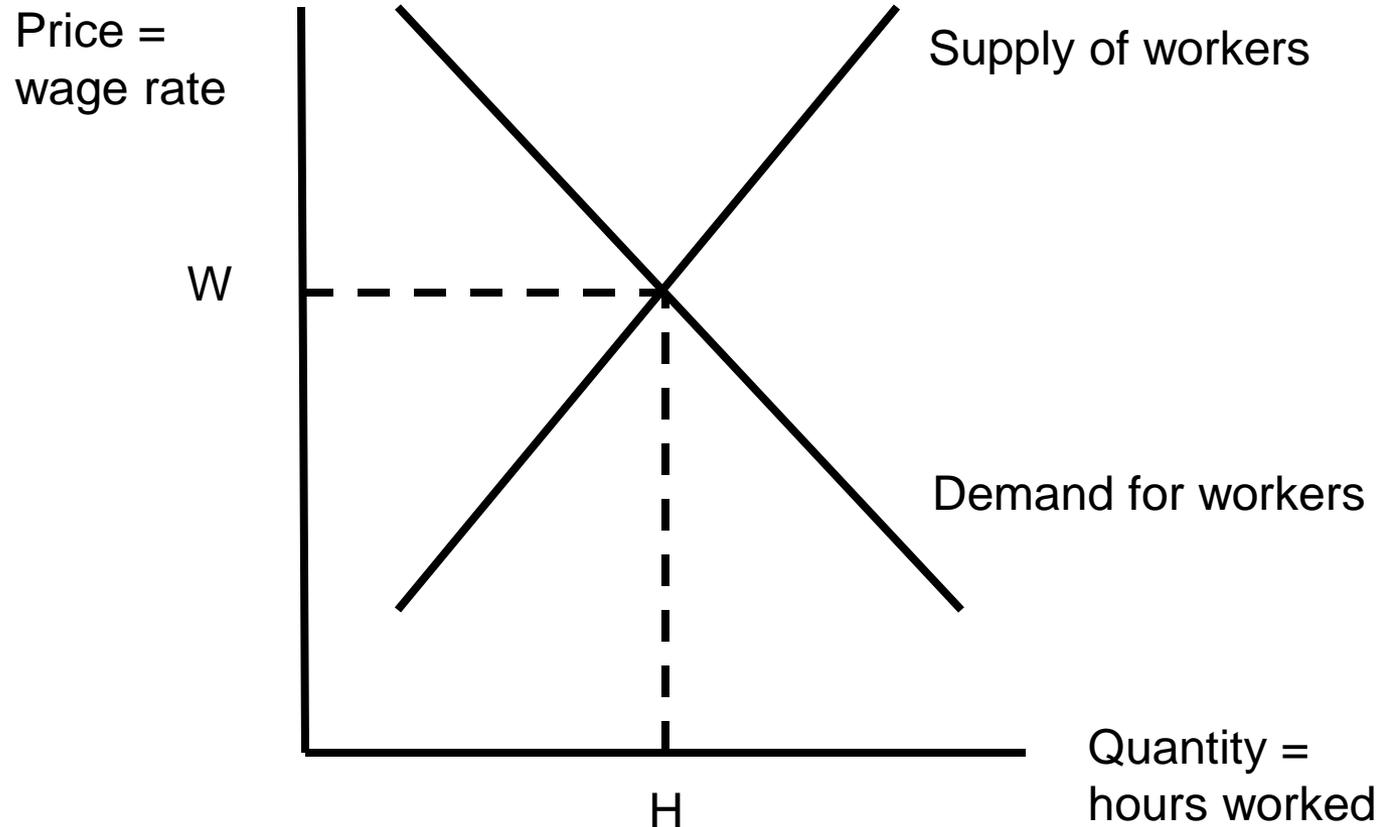
Percent of overall population



Source: Census Bureau

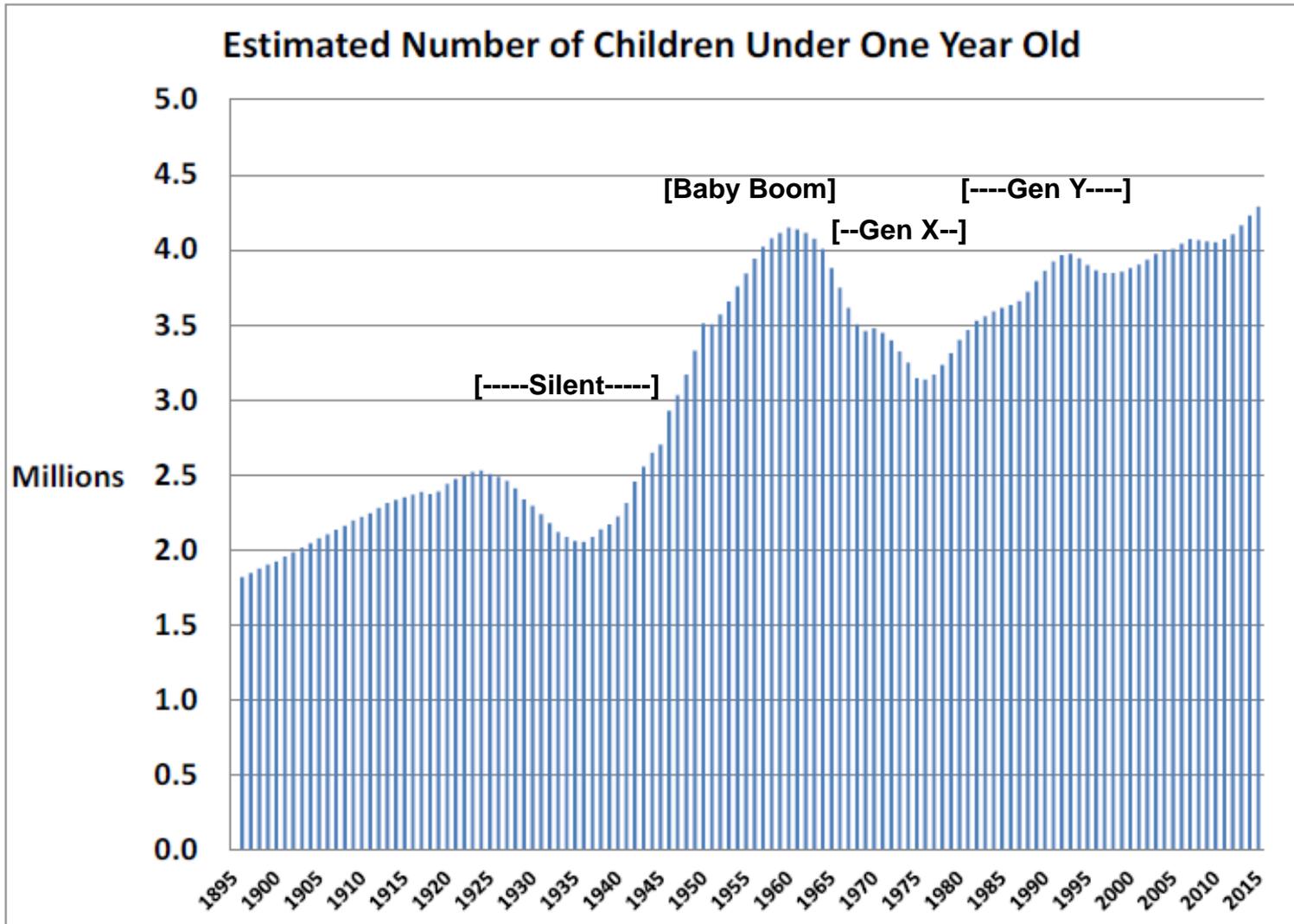


Supply and Demand in the Labor Market



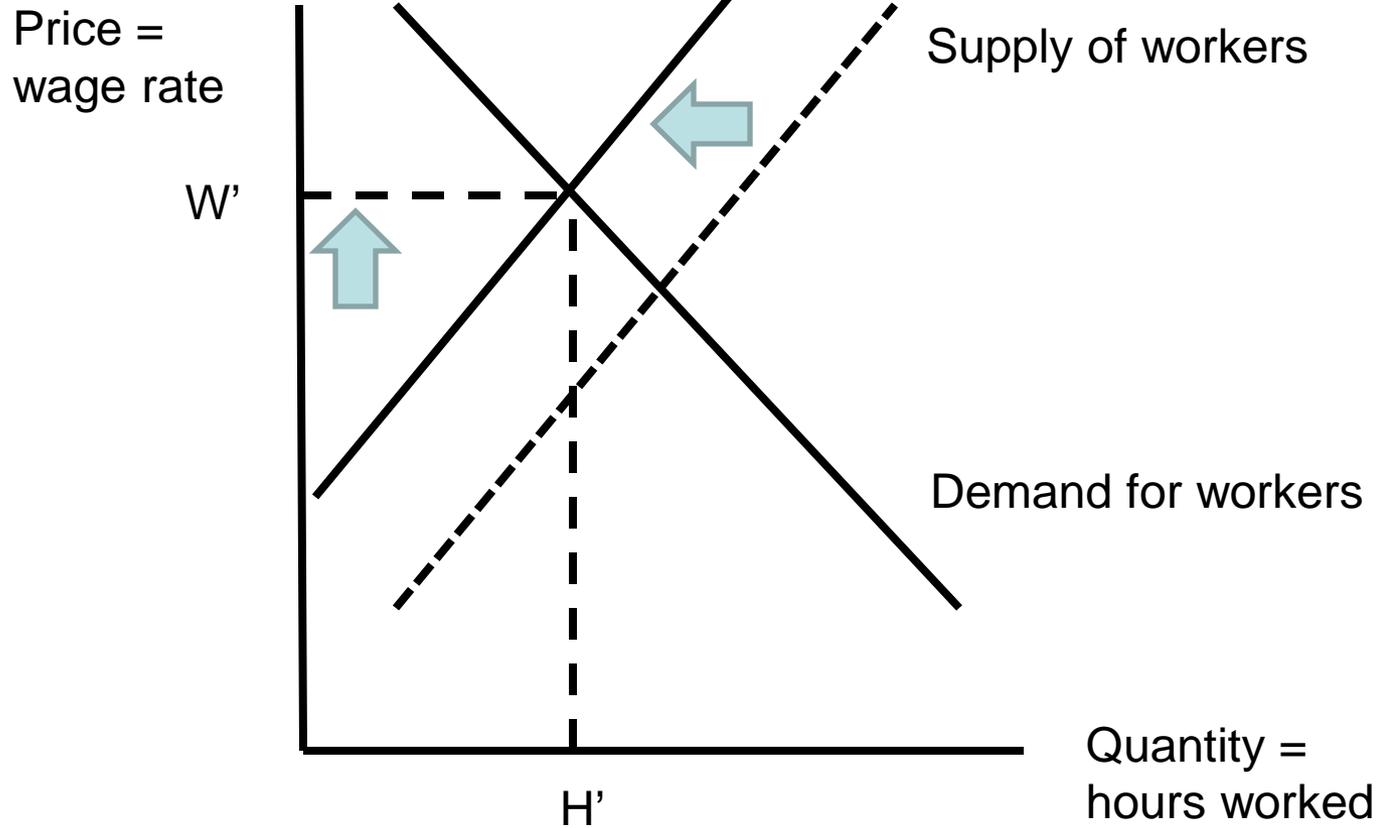


Silent Generation Was Very Small, Baby Boom Was Very Large





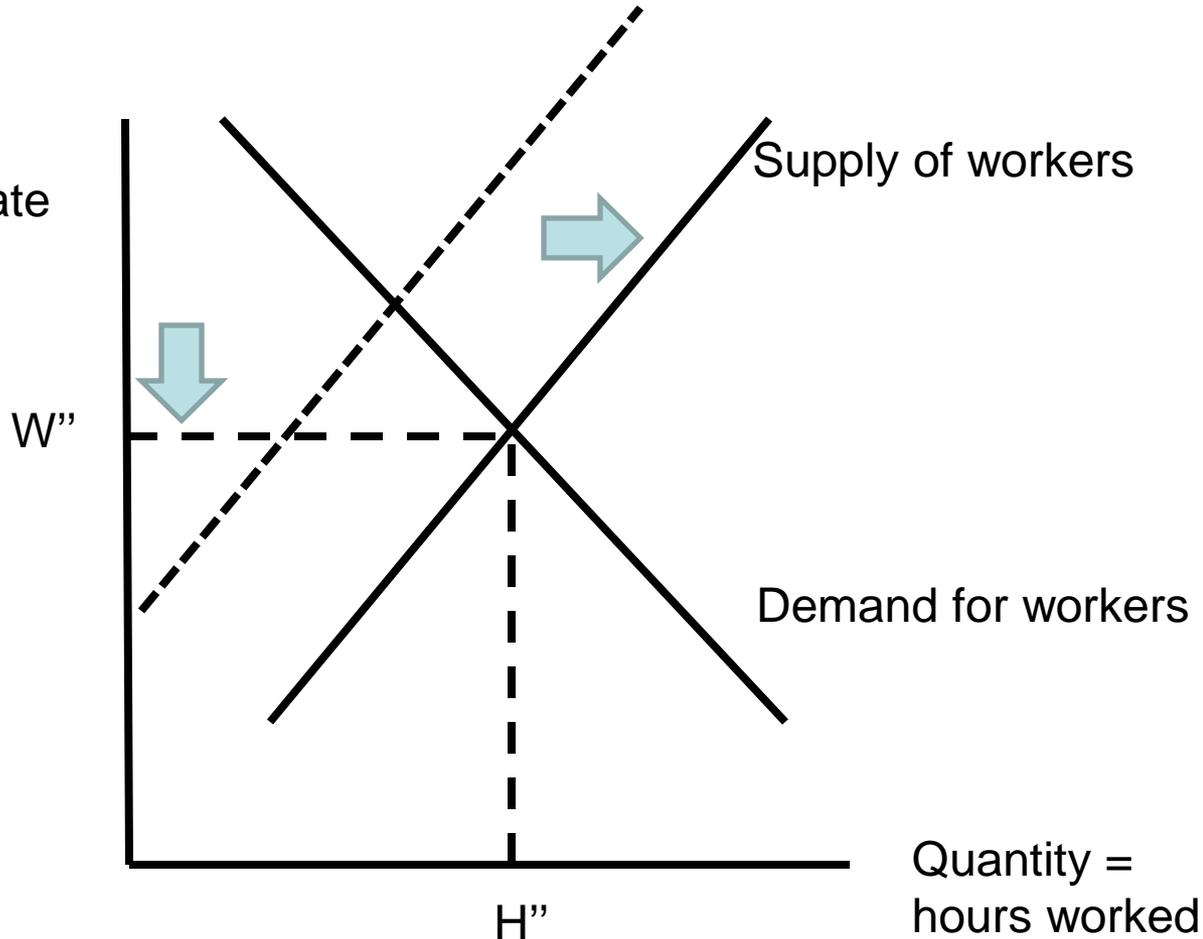
Silent Generation Was A Small Group => Higher Wages





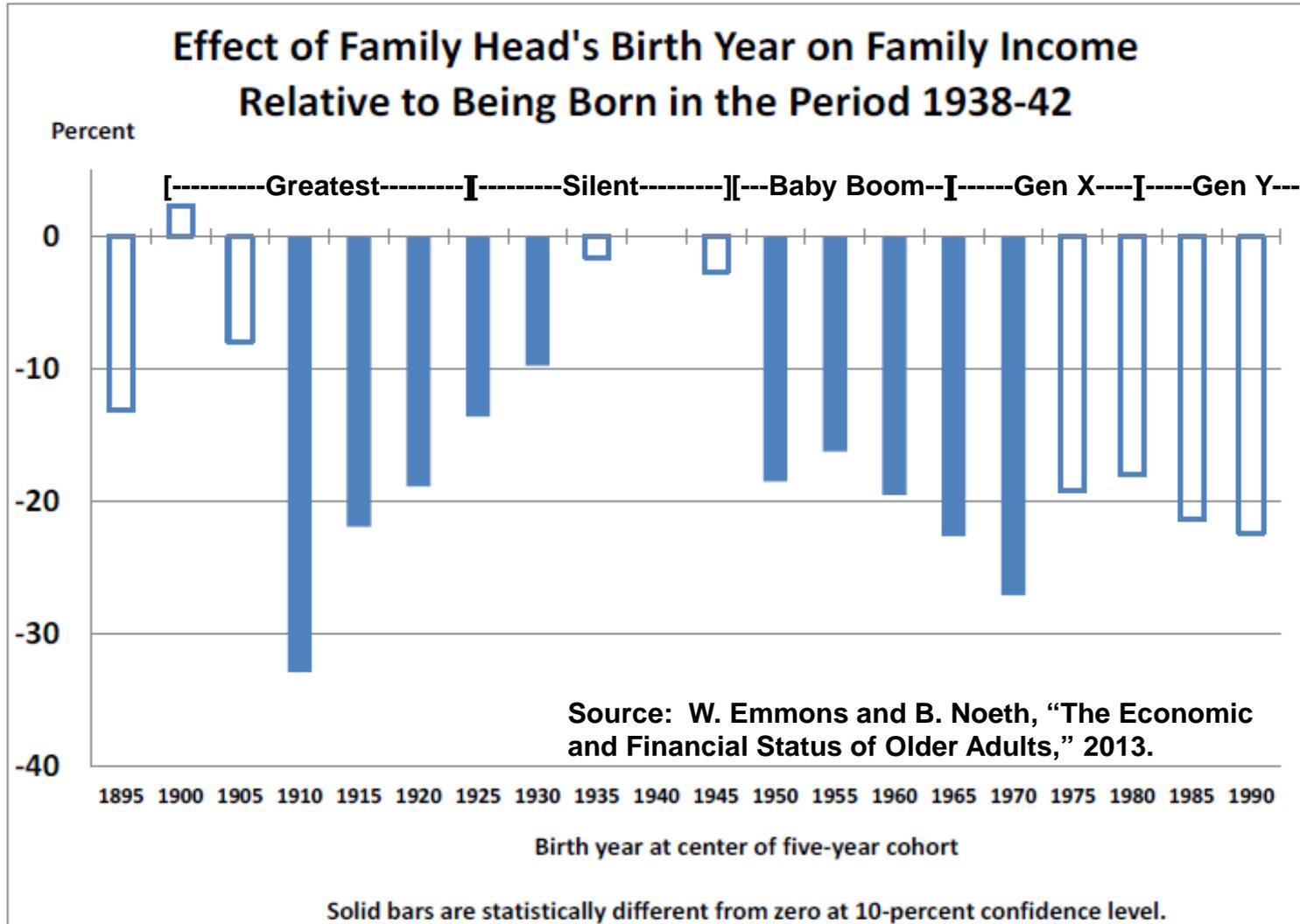
Baby Boomers Were A Large Group => Lower Wages

Price =
wage rate



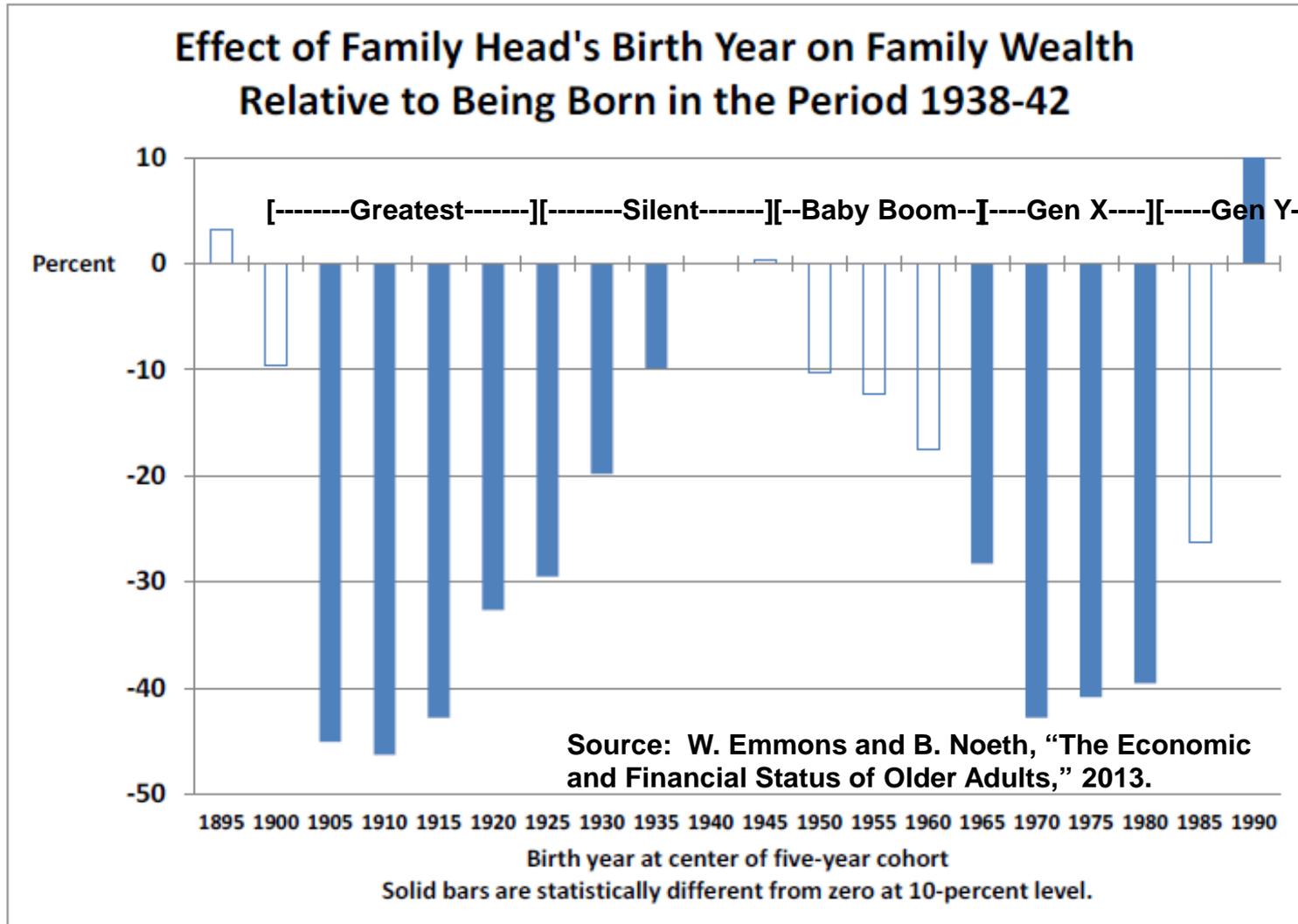


Members of the Silent Generation Received Highest Incomes, Controlling for Edcn. etc.



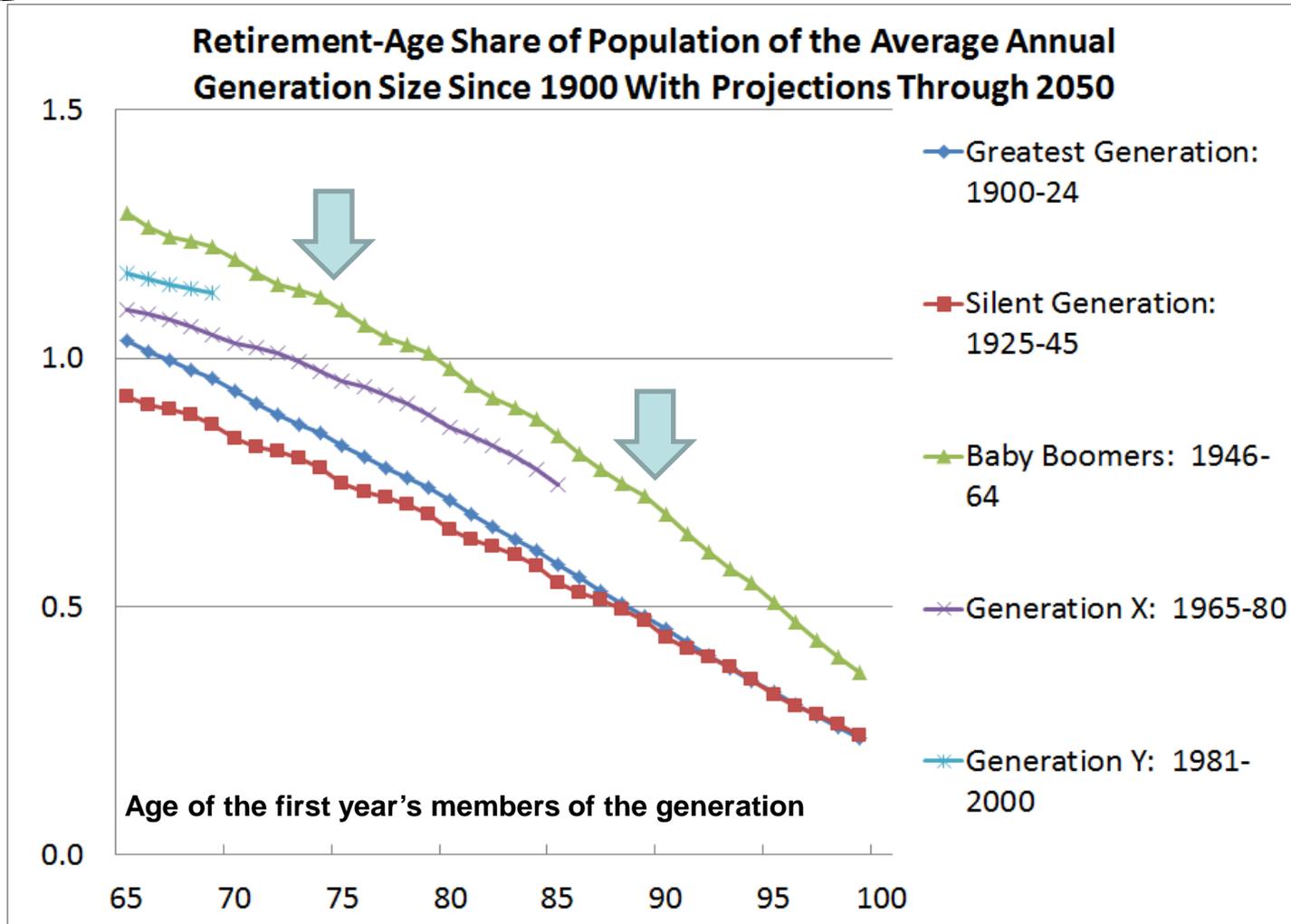


Members of the Silent Generation Are Wealthiest, Controlling for Edcn. etc.





Life-Cycle Stages: Which Generation Had the Largest Retirement-Age Population?

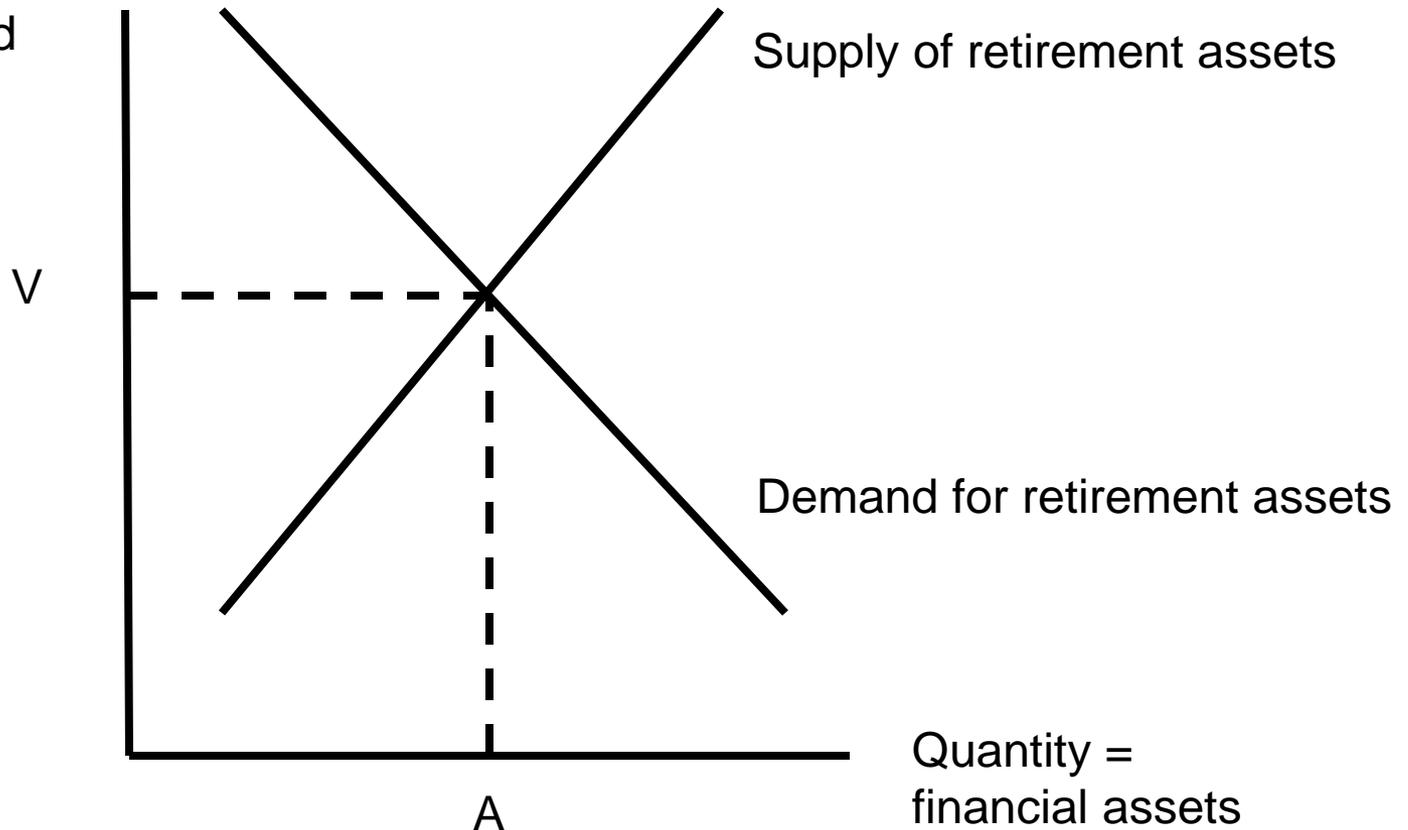


Source: Census Bureau



Supply and Demand in the Market for Retirement Assets

Price = stock and bond valuation
(inverse of expected return)

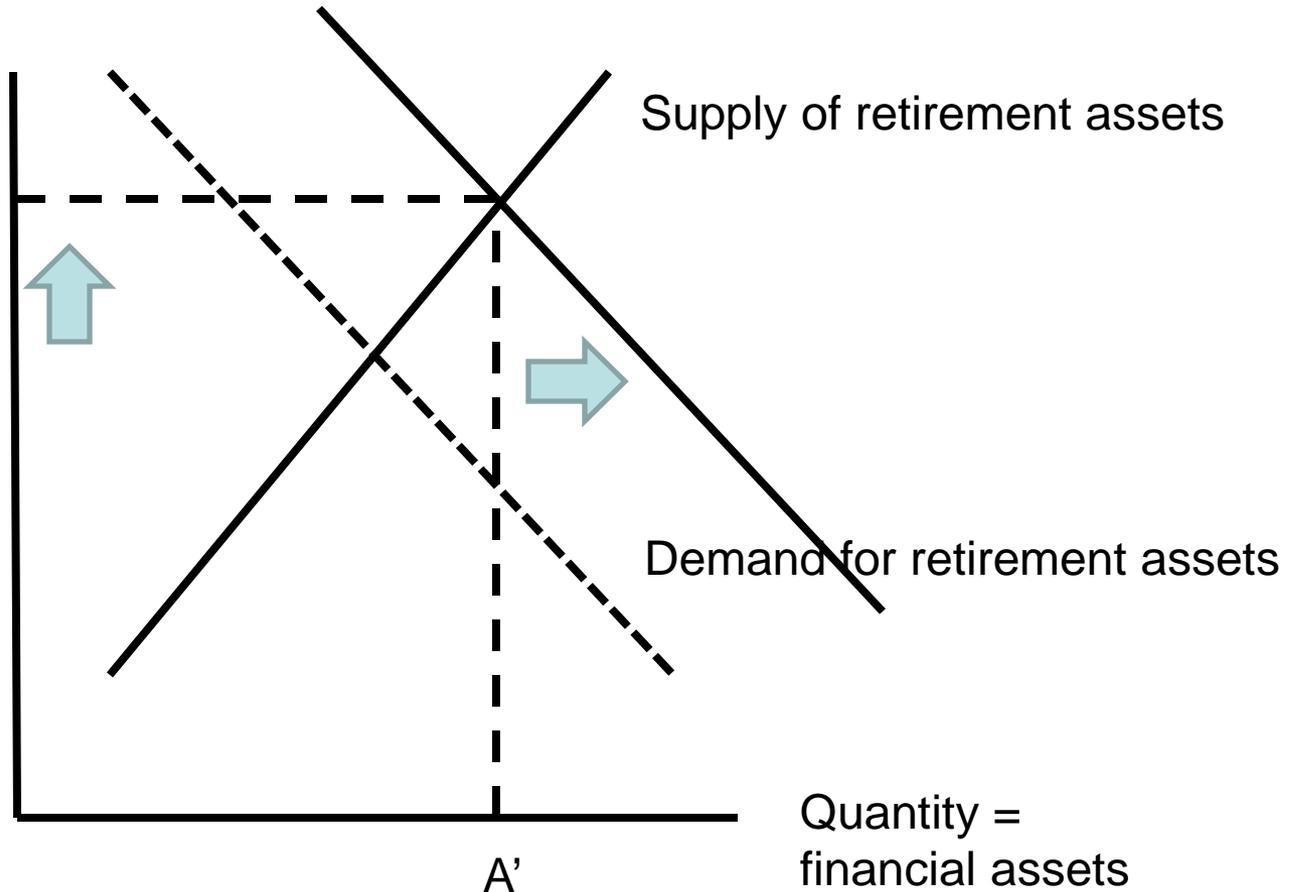




Baby Boomers Save for Retirement => Expected Returns Decline

Price = stock and
bond valuation
(inverse of
expected return)

V'

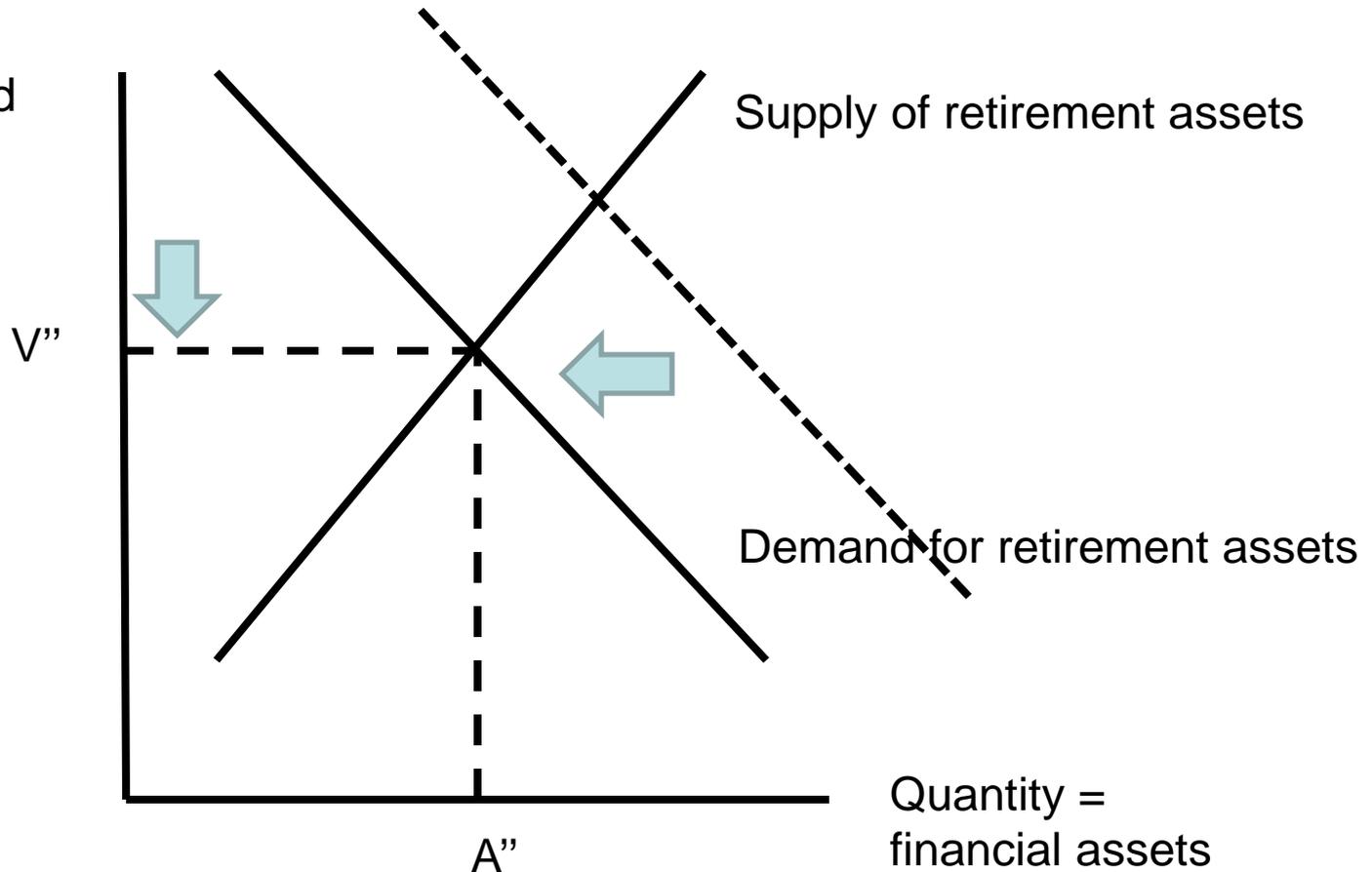


Quantity =
financial assets



Baby Boomers Sell Assets => Valuations Decline

Price = stock and
bond valuation
(inverse of
expected return)

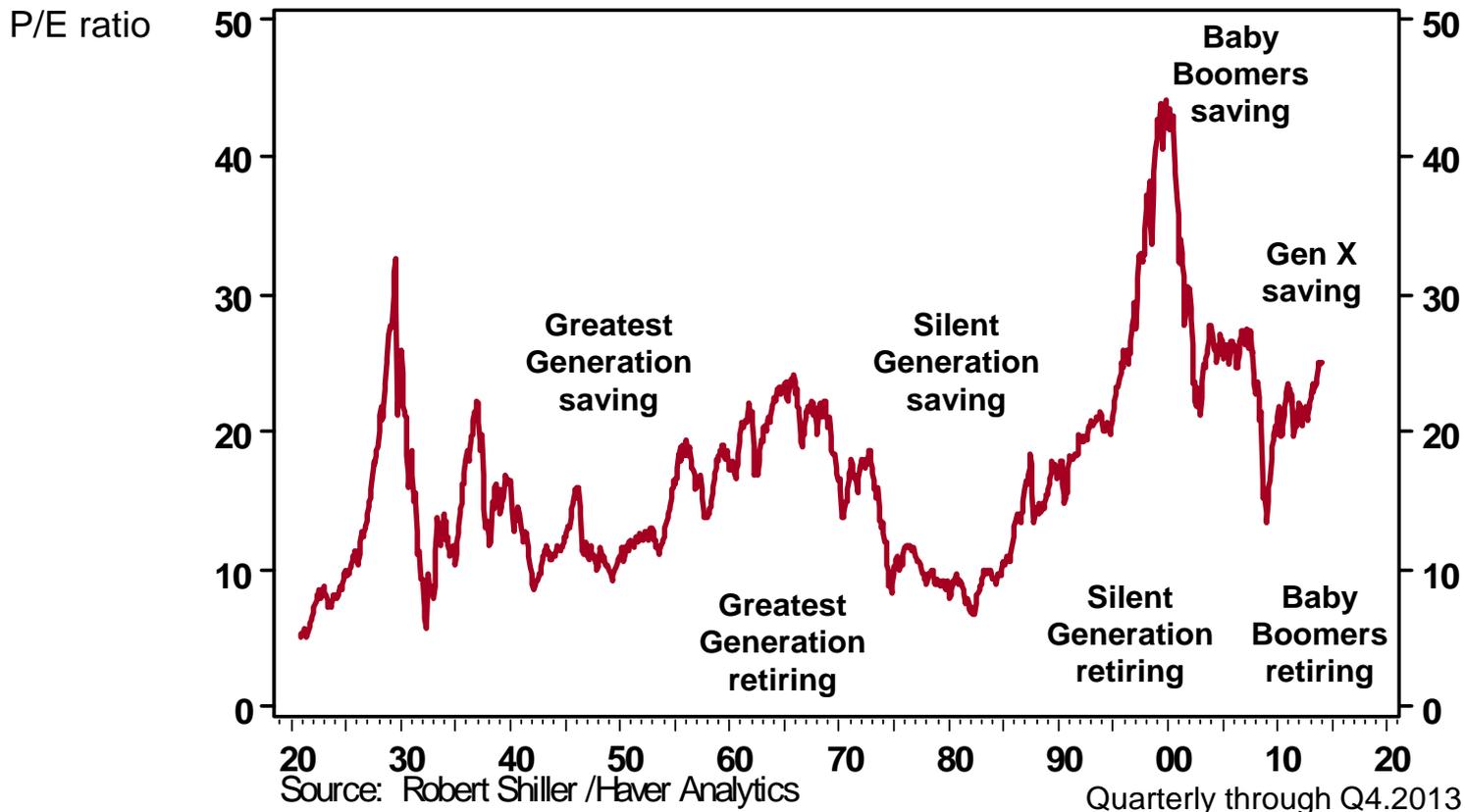




Baby Boomers Saved While Stocks Were Expensive; Retiring With Lower Valuation

Cyclically Adjusted S&P Price-to-Earnings Ratio

Stock price divided by 10-year moving average of real earnings per share

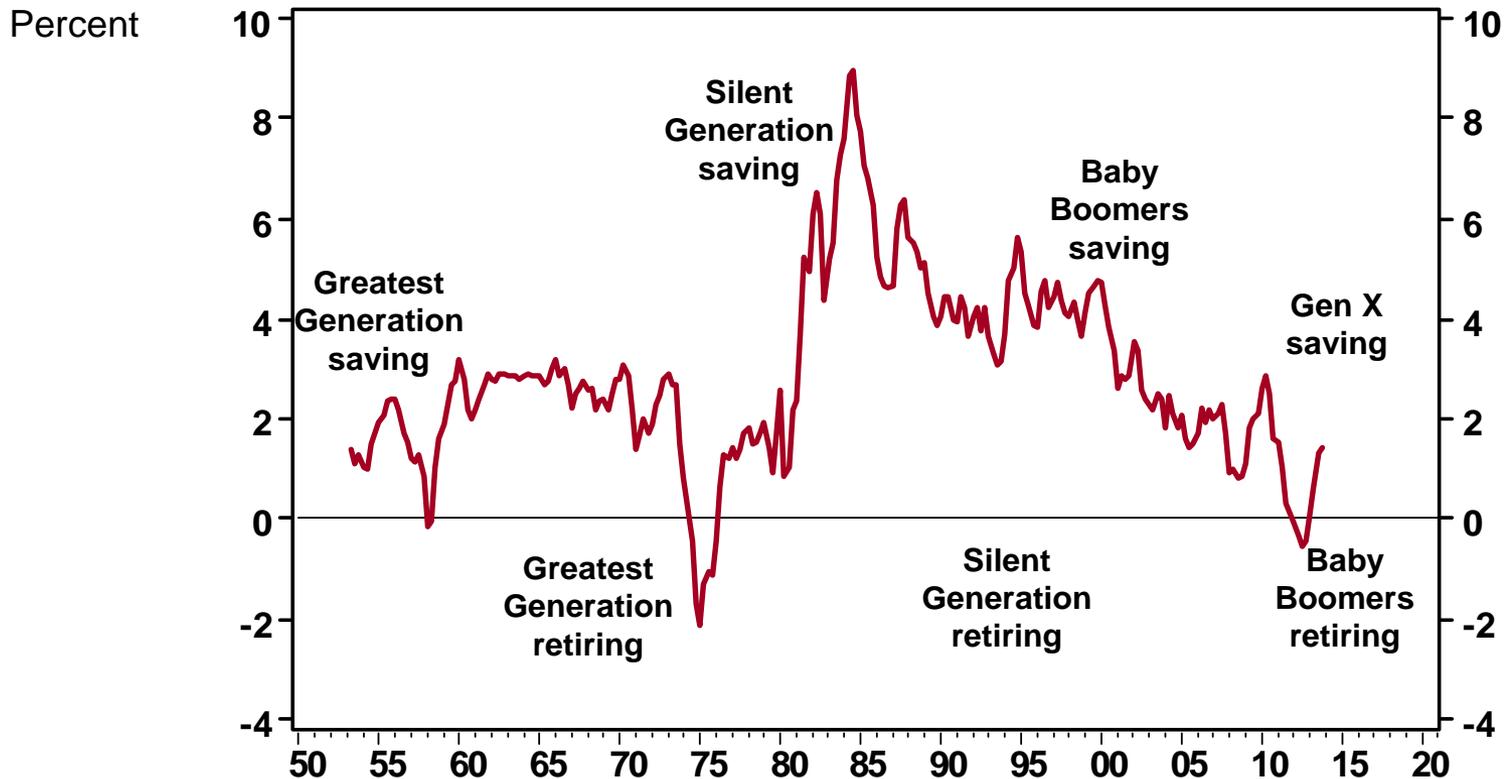




High Real Interest Rates Helped Silent Generation Save for Retirement

Real 10-Year Treasury Yield

Percent



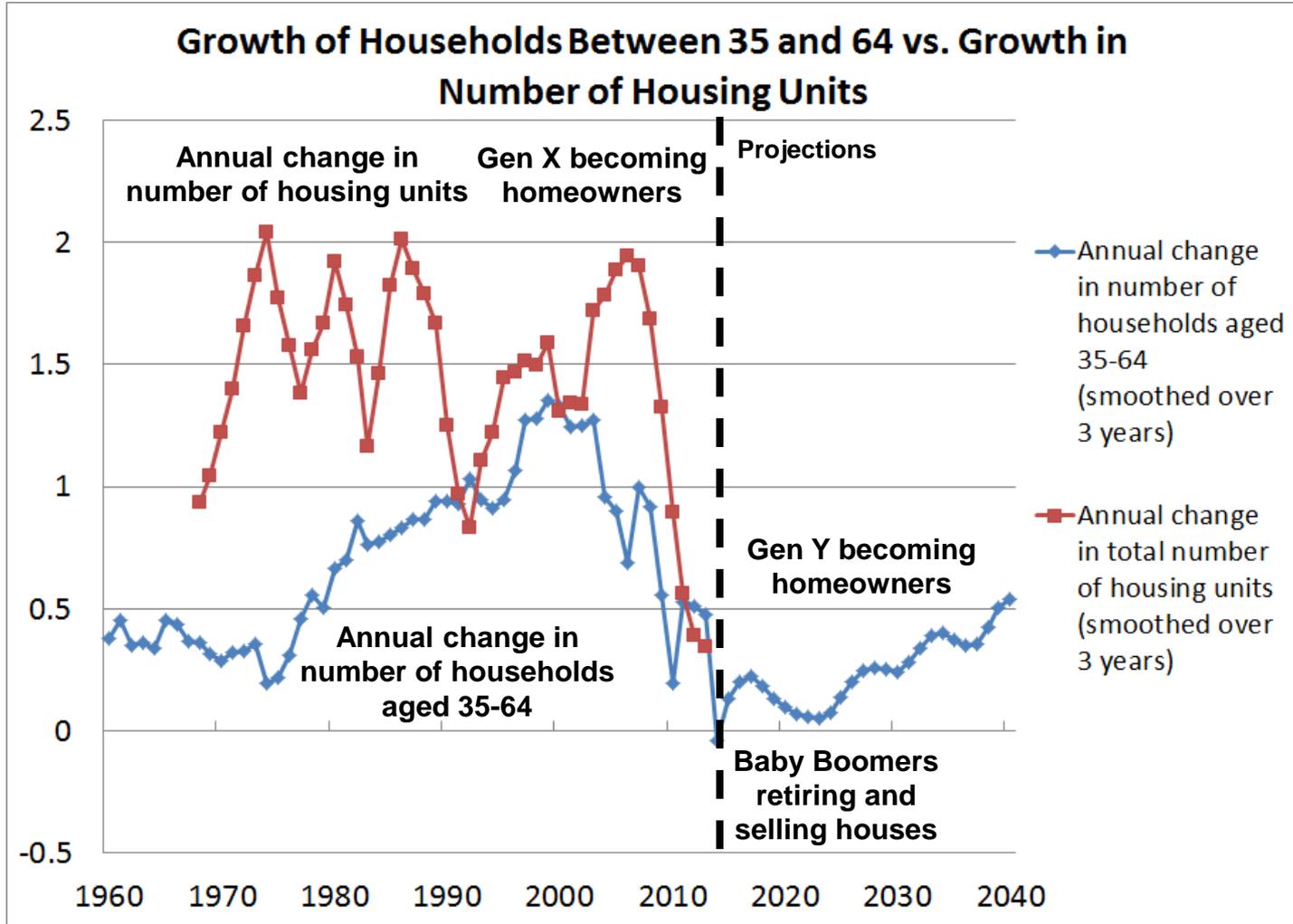
Source: Haver Analytics

Quarterly through Q4.2013



Slow Growth of Prime-Age Homeowners Will Dampen Housing Market for Years

Millions





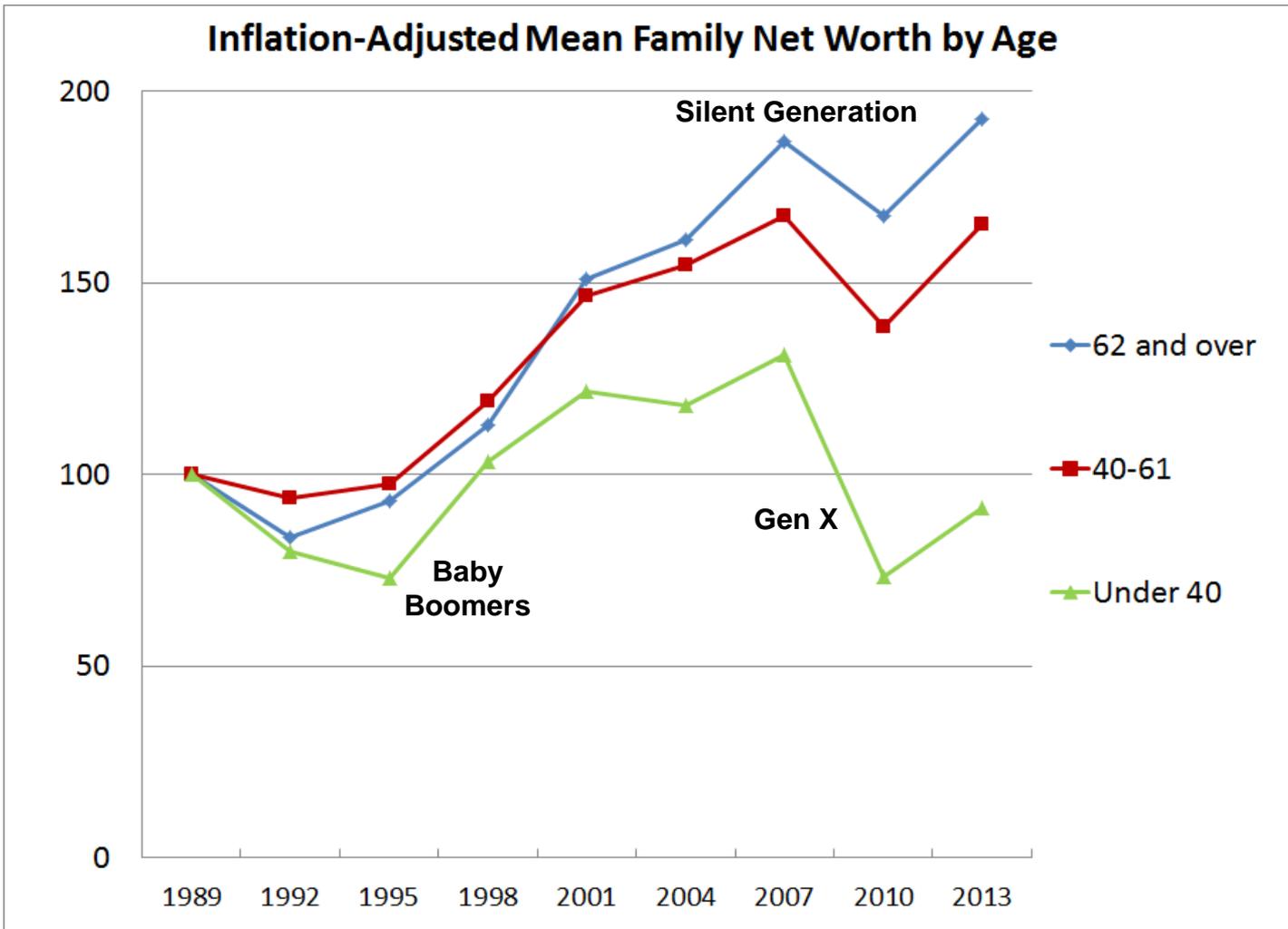
Economic and Financial Challenges Facing Members of Generations X and Y

- **Damage from the housing crash and Great Recession—especially for Gen X.**
- **Can economic growth and rising living standards continue at earlier rates?**
- **Long-term sustainability of current policies**
 - **Environmental**
 - **Fiscal**



Average Wealth of Young Families Plunged During Recession; Recovering Slowly

Index levels equal 100 in 1989



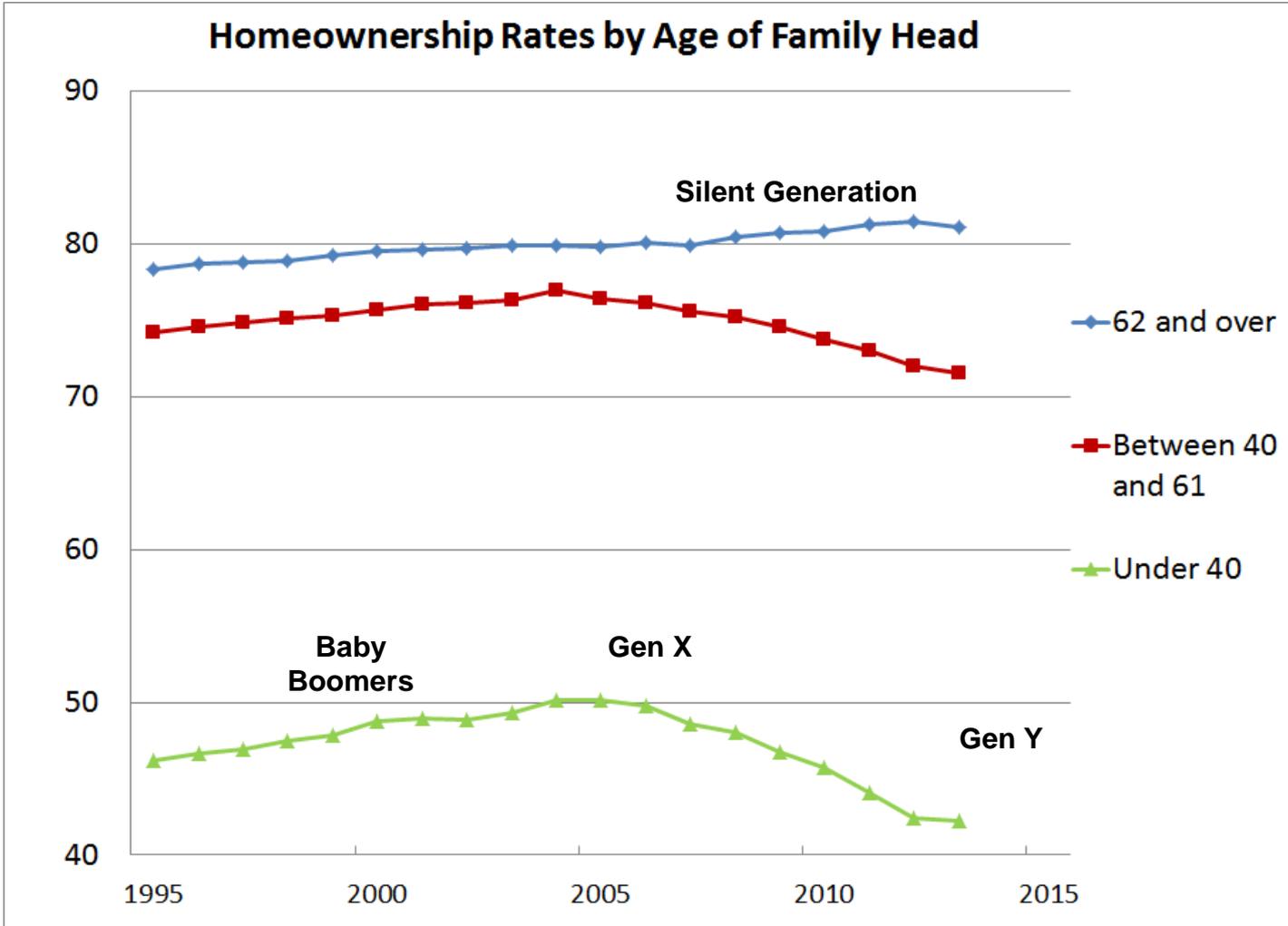
Sources: Fed. Res. Board and Fed. Res. Bank of St. Louis; Means: Triennial through 2013; medians: through 2010



Homeownership Rates Are Plunging Among the Non-Elderly

Homeownership Rates by Age of Family Head

Percent



Source: Census Bureau

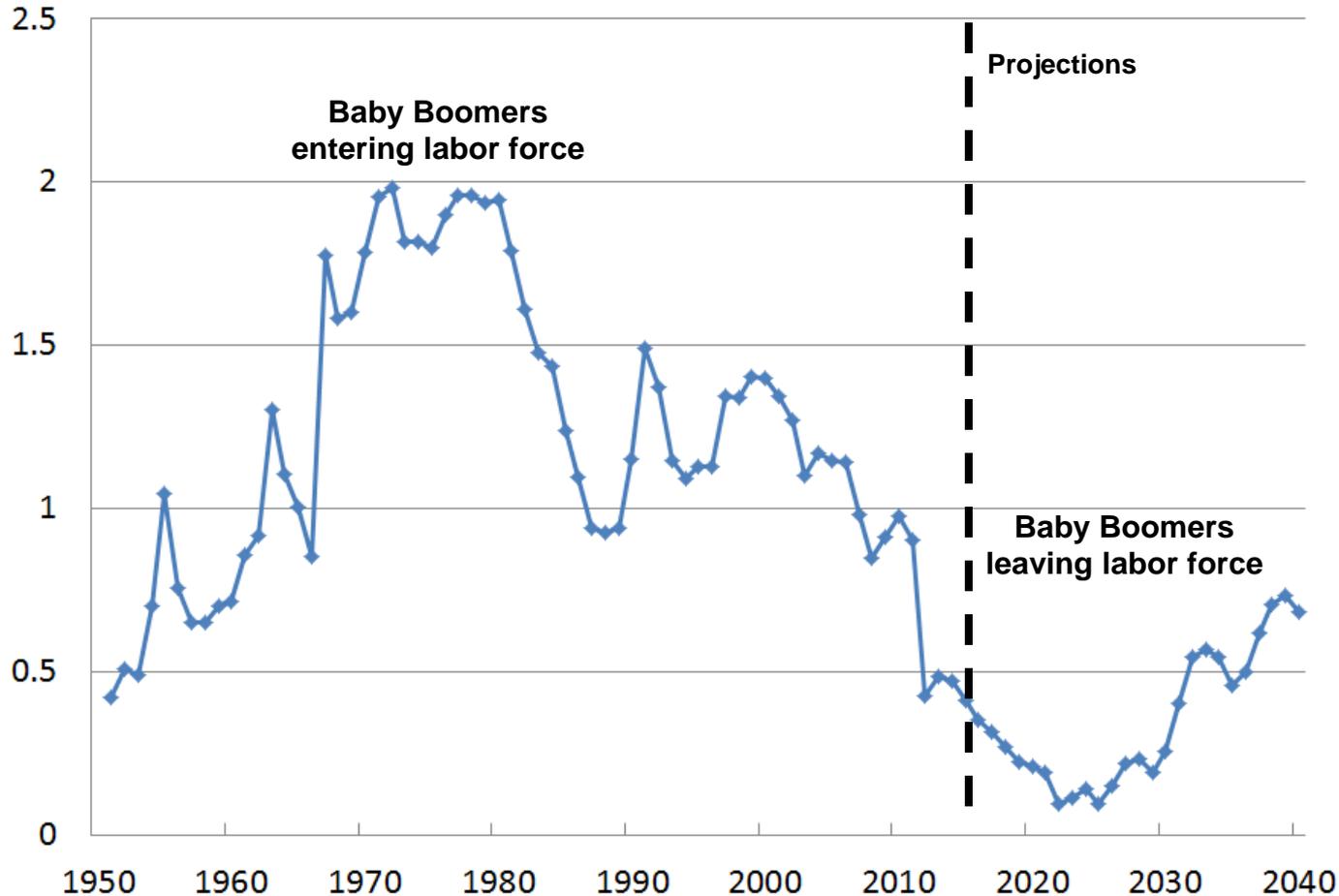
Annual through 2013



The Workforce Will Grow Slowly, Reducing GDP Growth Potential

Annual Change in Number of People Aged 20-64

Percent



Source: Census Bureau

Annual through 2013



The Fiscal Deck Is Stacked Against Gen X and Especially Gen Y

Year of birth	Generation	Average per-capita lifetime net benefit from federal benefits received minus taxes paid
1923	Greatest	\$105,900
1933	Silent	\$191,100
1943	Silent	\$279,300
1953	Baby Boom	\$222,700
1963	Baby Boom	\$54,200
1973	Gen X	-\$75,250
1983	Gen Y	-\$160,150
1993	Gen Y	-\$183,400
2003	Post-Millennial	-\$135,100
2013	Post-Millennial	-\$86,900

Source: Jagadeesh Gokhale, "Fiscal and Generational Imbalances and Generational Accounts: A 2012 Update," Cato Institute working paper, November, 2012, Table 3.



The Cost of Doing Nothing About the Environment

- Without action, the overall costs of climate change will be equivalent to losing at least 5% of global gross domestic product (GDP) each year, now and forever.
- Including a wider range of risks and impacts could increase this to 20% of GDP or more, also indefinitely.
- Source: *The Stern Review of the Economics of Climate Change*, 2006
(www.webcitation.org/5nCeyEYJr)



Generations X and Y: Facing Economic and Financial Challenges in the Shadow of the Baby Boom

- **The Baby-Boom generation suffered from its large size, but has passed some of the adjustment costs to future generations.**
 - **Housing-market adjustments**
 - **Fiscal- and environmental-sustainability challenges**
- **Generation X suffered most from the housing crash.**
- **Gen X and especially Gen Y are big fiscal losers.**
- **Generations X, Y, and the Post-Millennials (in that order) are likely to benefit in labor and asset markets from their smaller size.**



Center for Household Financial Stability

- **A research and policy initiative of the Federal Reserve Bank of St. Louis: www.stlouisfed.org/hfs.**

- **Some of our specific research questions:**
 - **Which families suffered the most during the financial crisis?**

 - **Why are only some families recovering from the crisis?**

 - **What household balance-sheet characteristics are associated with financial instability?**



To Learn More About the Financial Outlook for Young American Families

- **Upcoming public events:**
 - **May 8-9, 2014: 2nd Annual Household Financial Stability Research Symposium, at the St. Louis Fed.**
 - **Topic: The Balance Sheets of Younger Americans—Is the American Dream at Risk?**
 - **Sessions on student loans, homeownership, economic mobility, economic impacts of young families, and more.**
 - **October 16-17, 2014: Policy Symposium in Washington DC.**
 - **Topic: The Financial Stability of Younger Americans.**
 - **In partnership with the *New America Foundation* and the *Young Invincibles* (an advocacy group for young Americans).**
- **Find our research, public presentations, and media coverage at www.stlouisfed.org/hfs.**