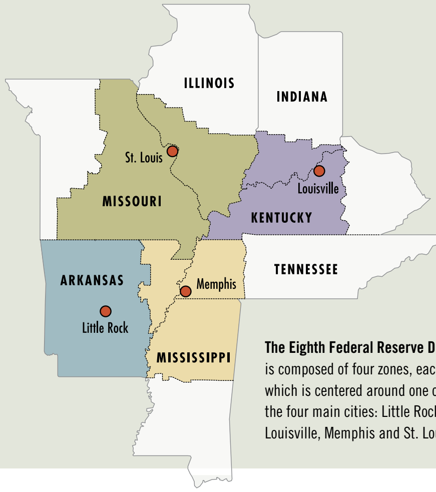

The Eighth Federal Reserve District is composed of four zones, each of which is centered around one of the four main cities: Little Rock, Louisville, Memphis and St. Louis.

"Leaving the Nest" Is Easier in Arkansas than Elsewhere in the District and Nation

By Maria E. Canon and Charles S. Gascon

Reports on the millennial generation[1] continue to suggest that changes in household formation and economic dynamics during the past decade may be more than prolonged effects from the Great Recession. Millennials who are overwhelmed with student debt, weak job prospects and an uncertain housing market are often moving back in with their parents or other family members. Those who do "leave the nest" and don't return to it struggle to afford the down payment on a house; their rents are rising, making homeownership increasingly unattainable. The result is a lack of first-time homebuyers, which restrains the recovery in the housing market and, thus, overall economic growth.

The first column in the table shows the percentage of 25-year-olds who live with parents or older relatives (henceforth "parents"); the percentages are given for the nation and for the states in the Eighth District.[2] Nationally, almost half of 25-year-olds lived with their parents in 2012-13, up from more than a quarter in 1999. Among the District states, the rates of parental co-residence were typically lower than the national average; however, the growth since 1999 has been quite similar. Nationally, the highest levels of co-residence were typically in the northeastern states.

In this article, we review some of the literature on millennials' moving back home and focus on the relevant statistics for labor markets, housing markets and student debt for the seven states in the Fed's Eighth District and for the nation as a whole.

Labor Market

As economist Jaison Abel and co-authors pointed out, individuals at the beginning of their careers often need more time to transition into the labor market. Unemployment rates of those between 21 and 27 reflect this fact. (See "Unemployment Rate, Youth" in the table.) The unemployment rate for these people is generally above the rates for potential workers of all ages. Among the states in the District, the youth unemployment rates are the lowest in Missouri and highest in Mississippi.

Earning a college degree does help labor market outcomes, and young adults with a college degree are more likely to live independently.[3] Their lower unemployment rate, however, does not fully capture the labor market for recent graduates. Abel and co-authors noted that during the recession the *underemployment rate* for recent graduates was about 40 percent, which means close to half of recent graduates were working in jobs that did not require a degree. An implication is that a significant portion of recent graduates were earning lower wages than what they should have been, given their education.

Economist Philip Oreopoulos and co-authors found that those "unlucky graduates" who enter the job market during

Economic Factors Driving Youth to Live with Their Parents

	Percentage of 25-Year-Olds Living with Parents	Unemployment Rate, All Workers	Unemployment Rate, Youth	Unemployment Rate, Recent Graduates	House Price Growth since 2012	Housing Affordability Ratio	Student Debt per Borrower
Ark.	37.4%	7.6%	8.0%	3.8%	7.9%	2.6	$24,676
Ill.	53.6	8.7	8.7	5.4	12.0	3.2	30,340
Ind.	42.6	8.0	8.7	5.5	11.7	2.6	25,260
Ky.	38.3	8.2	9.6	4.6	9.8	2.8	25,216
Miss.	44.3	9.2	11.8	5.8	8.6	2.6	25,762
Mo.	43.9	7.2	7.6	3.6	15.3	2.9	26,401
Tenn.	44.4	8.1	9.4	4.0	17.3	3.1	26,793
U.S.	48.8	7.8	8.4	5.2	20.9	3.3	27,342

NOTES: State-level data are reported for entire states; some portions are outside the Eighth District boundaries. The percentage of 25-year-olds living with parents is from the Federal Reserve Bank of New York Consumer Credit Panel/Equifax via Bleemer et al. and is for the years 2012 and 2013. The states' house price growth is measured using the expanded-data house price index of the Federal Housing Finance Agency. Housing affordability is measured by the median house price divided by median household income from 2009 to 2013 as reported by the Census Bureau; for example, the U.S. value of 3.3 indicates that the median house price of $177,000 equates to about 3.3 times the median household income of $53,000. Unemployment rates are averages from 2011 to 2014, calculated using the data from the Current Population Survey. "Youth" is defined as those between 21 and 27. Recent graduates have earned a bachelor's degree but no higher degree. Student debt per borrower is from Gascon and Noeth (2013) and is measured as average debt per borrower aged 24 to 34 during the first quarter of 2013.

a recession not only suffer in the short-term but will pay a price for about a decade. That's because they start work for lower-paying employers and slowly work their way up toward better-paying jobs.

Combining state-level information on the relevant statistics for labor markets, housing markets and student debt is useful in understanding the differences in co-residence of millennials in District states and the nation. Although the differences may be difficult to decipher on the margins, the ends of the spectrum are clear.

Housing Market

Economist Zachary Bleemer and co-authors found that economic growth may also have constraining effects on millennials' ability to live independently. On the one hand, an improved labor market makes it easier for them to find a job and earn income; on the other hand, stronger economic (and population) growth in some areas limits the supply of housing, pushing up prices. Since 2012, national house prices have increased 21 percent. In many areas, rental price growth has been faster. Because most youth would be first-time homebuyers, they have no housing equity to regain from the rebound in house prices after the housing crash.

In the Eighth District states, home price growth has been slower than the national average, and, generally, housing remains more affordable. Nationally, the median house costs 3.3 times the median household income. In most of the District states, the median house costs less than 3 times the median income. Housing is most affordable in Arkansas, Indiana and Mississippi. The slower growth in prices can be tied to slower population growth in the District states, along with a larger supply of available land for housing.

Student Debt

A 2014 survey of first-time homebuyers found that over half of respondents indicated that student-loan debt was delaying their saving for a down payment on a house.[4] Consistent with the survey results, Bleemer and his co-authors found that a $10,000 increase in a student's average debt increases by about 2 percentage points the probability that by the age of 25 he or she will be living with parents or other family members. The data in the table show that the average borrower in the District tends to have slightly lower student-debt levels than the national average; however, student-debt growth in the District has generally been faster than the national average in recent years.[5]

Conclusions

Combining state-level information on the relevant statistics for labor markets, housing markets and student debt is useful in understanding the differences in co-residence of millennials in District states and the nation. Although the differences may be difficult to decipher on the margins, the ends of the spectrum are clear. Arkansas has some of the lowest youth unemployment rates in the District, the slowest house price growth, most affordable housing and the lowest levels of student debt. So, it's not surprising that it has the lowest rate of 25-year-olds living with their parents. On the other hand, Illinois has the highest rate of co-residence, which is consistent with higher unemployment rates, less affordable housing and higher levels of student debt. Ω

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ENDNOTES

1 Millennials are often identified as those born after 1981.
2 Specifically, the percentage of 25-year-olds who share an address, down to the apartment number, with household members 15 to 45 years older. For more information, see Bleemer et al.
3 See Fry.
4 See National Association of Realtors.
5 See Gascon and Noeth.

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