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A Lost Generation? Young Families after the Great Recession

Prosperity Now Summit

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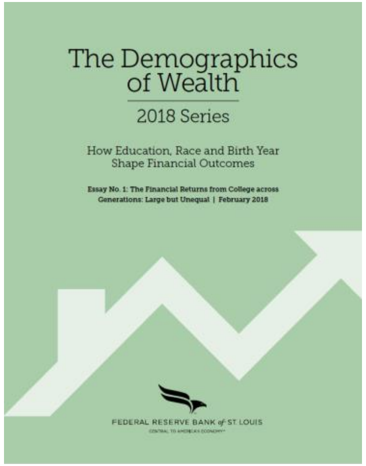
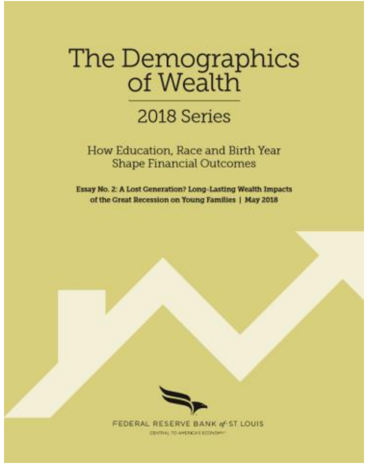
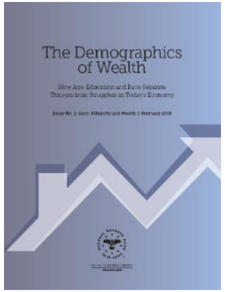
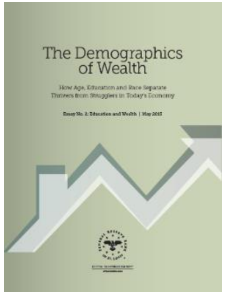
**These are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors*

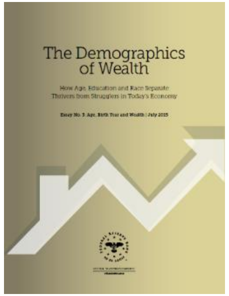
The Demographics of Wealth











- Six essays written by Center staff.
- The series explores the connection between wealth and a person's race/ethnicity, education, age and birth year.
- These relatively unchanging factors increasingly predict which families struggle and thrive.

The Lasting Impact of the Great Recession

- The Great Recession of 2007-09 inflicted deep and widespread losses to wealth across American families.

- While wealth losses occurred across the age spectrum, the extent of the damage has been unequal.

- Younger families suffered the most and have rebounded slowly.

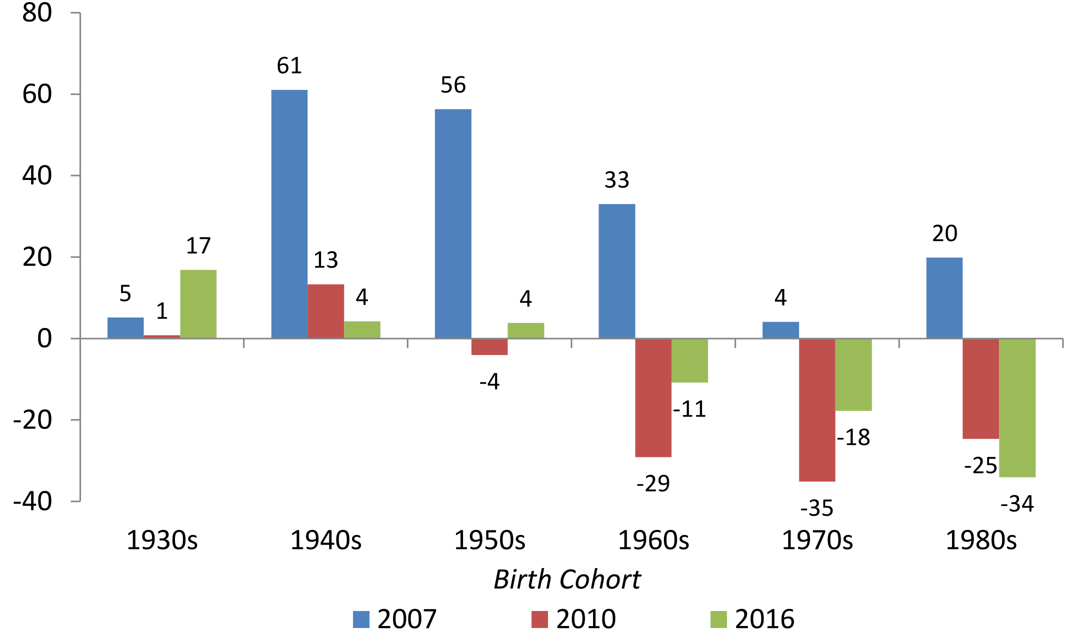
Can Families Recover What They Lost?

- For the families that lost the most wealth, how likely are they to recover in time for major goals?
  - First home purchase
  - Tuition for their children
  - Retirement
- Will young or middle-aged families at the advent of the recession become part of a "lost generation" that struggles to achieve life's financial milestones?

Which Generations Have Recovered?

Deviation of Birth Cohort Median Wealth from Predicted Value

Percentage Points



Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- Cohorts born before 1960 were above benchmark levels in 2016.
- Cohorts born in 1960 or later were below predicted wealth levels.
- The 1980s cohort slipped noticeably further behind between 2010 and 2016.

Housing Was Key for 1960s, 1970s Cohorts

- Together, high debt ratios, high homeownership rates and high delinquency rates spelled trouble for families born in the 1960s and 1970s.
- Housing and mortgage debt likely played a role in the wealth losses seen during the Great Recession.
- Conversely, as home values recovered in recent years, many of these homeowners benefited, as evidenced by closing gaps between actual and predicted wealth.

Families Born in the 1980s Are Different

- In 2007, only 19 percent of 1980s families were homeowners.
- Instead of mortgages, student loans, credit card debt, and auto loans were a key source of leverage.
- Unlike stocks and real estate, these debt-financed assets haven't rapidly appreciated in the last few years.
- The 1980s cohort was unusual in falling further behind wealth benchmarks from 2010-2016.

Is the 1980s a "Lost Generation"?

- The high returns on housing and financial assets in recent years are unlikely to continue in future years.
- Thus, catching up to the wealth benchmarks set by earlier generations is possible – but no simple feat.
- Income and homeownership trends have been unexceptional for the 1980s cohort so far.
- The challenge faced by the typical 1980s family should not be underestimated.

A Case for Optimism

- Two key factors on the side of 1980s-born families are time and education.
- These families have many more years to earn, save and accumulate wealth.
- This is the most highly educated generation; it's possible that their income and wealth trajectories will be steeper.
- It's far too soon to know whether families born in the 1980s will catch up; we will have to wait and see.