Economic Analysis

The Generational Opportunity Index: the state of Millennials

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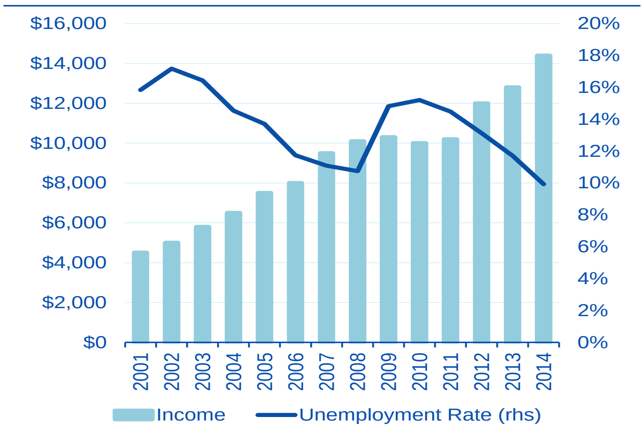
- **In terms of economic opportunity, Millennials still lagging other generations**
- **Minneapolis, Des Moines, Omaha and Denver are top-ranked cities that will continue to attract younger generations**
- **To enjoy similar standards of living at comparable life-cycle phases, Millennials will need stronger economic growth**

Introduction

Millennials are perhaps the most overanalyzed and overgeneralized generation in history, and the myths surrounding them are endless. From “clueless” to “brainiest” and “self-obsessed” to “socially conscious,” the stereotypes are often contradictory and range from flattering to derogatory. However, just like any other generation, Millennials are by no means homogenous. Therefore it is essential to take a closer look to debunk these unsubstantiated stereotypes and reveal the potential of this generation.

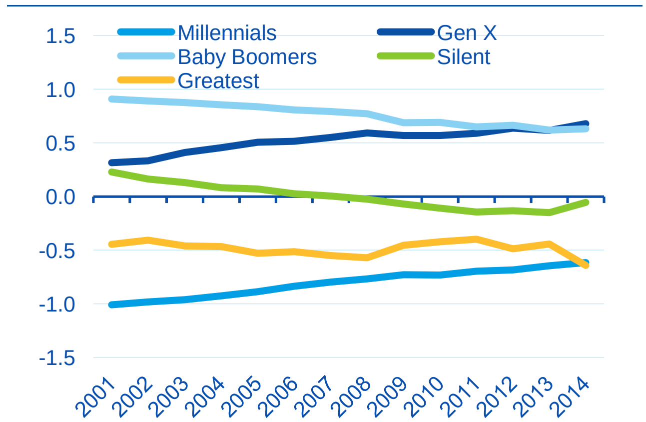
With this in mind, we developed a Generational Opportunity Index (GOI) that analyzes seven factors to measure if and how prospects for Millennials (born between 1982-1995) have improved and how their performance compares to that of the other generations — Gen X (1965-1982), Baby Boomers (1946-1965), Silent (1928-1946) and Greatest (before 1928). We chose variables that capture potential economic opportunity: unemployment rate, participation rate, personal income, educational attainment, home ownership rate, home value and vehicle ownership. The index reflects important factors in U.S. economic opportunity, weighting labor market access, education and income opportunity higher than wealth proxies such as housing and vehicle ownership.

Chart 1
Millennial Income and Unemployment Rate



Source: BBVA Research / Census Bureau

Chart 2
Generational Opportunity Index

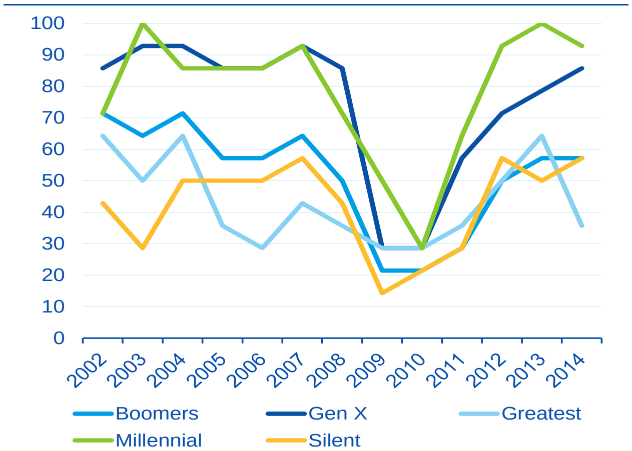


Source: BBVA Research / Census Bureau

Generational Opportunity Index (GOI)

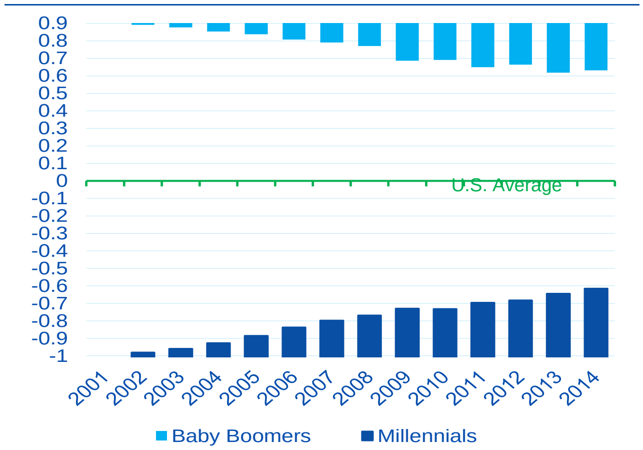
The GOI shows that Millennials' opportunities have improved throughout the decade, but still lag behind their peers. When looking at specific variables, however, Millennials are above average in areas such as labor force participation and educational attainment. In particular, Millennials with college degrees are doing much better post-recession due largely to a shift in job creation since the second half of the 20th century towards occupations which require higher education and skills — i.e. computer system analyst, data scientist, civil engineer, social media manager and financial planner.

Chart 3
Generational Opportunity Diffusion Index*



Source: BBVA Research / Census Bureau
* Difference between number of indicators improving from those declining in percentage

Chart 4
Millennials & Baby Boomers' Opportunity Indexes (Above/below average of all generations)



Source: BBVA Research / Census Bureau

On the other hand, Millennials' unemployment rate is above average, and they come in below average in terms of income, vehicle ownership, home ownership and home value. A recent study by Pew Research found that living with a parent is now the most common living arrangement among Millennials (32.1%); while a smaller share are living in their own household with a spouse (31.6%) or alone (14%) — down from 62% and 5%, respectively, in 1960. Student debt is one often-blamed culprit for falling homeownership, but studies have found that college graduates with student debt in their late 20's are more likely to own a home than non-debtors.

Rather, Millennials' delay in starting families is the primary reason for the decline in homeownership. The median age for first marriage in 2014 was 27 for women and 29 for men, up from 20 and 22, respectively, in 1960. To top it off, young potential homebuyers face a widening gap between income and home prices, as incomes have failed to keep pace with home price appreciation for the last 15 years.

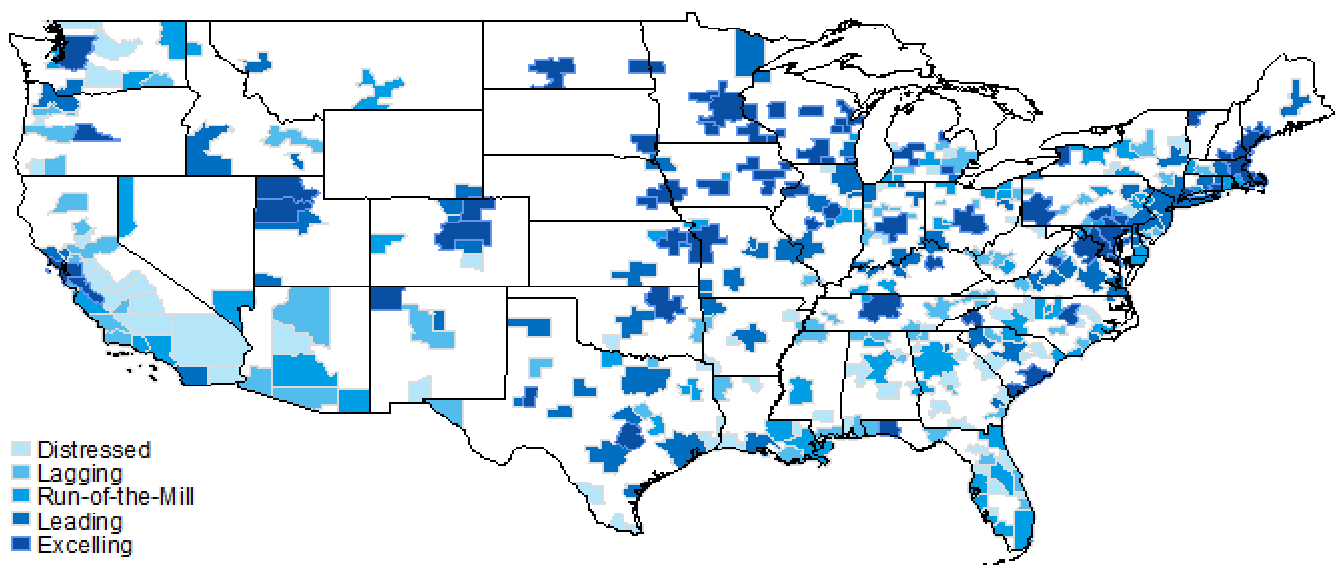
On a positive note, almost all of the variables for Millennials in our GOI show an upward trajectory, indicating that Millennials' opportunity is showing broad-based improvement. However, unemployment rate trended away from the average in 2014. On a year-over-year basis, Millennials' biggest gains were in homeownership and income, rising 33% and 13%, respectively. Income also ranks amongst the most improved compared to 10 years ago.

When looking at other generations, Gen X is doing the best, followed by Baby Boomers, although the Baby Boomers are on the decline and were eclipsed by Gen Xers in 2013. Like Millennials, the Silent and Greatest generations both come in below average. These results are consistent with recent surveys that suggest that older generations feel disfranchised and frustrated with economic conditions. However, Millennials eclipsed the Greatest generation while still trailing the Silent generation.

The story is very different when looking at 10 year improvement, as Gen X tops the list, with Millennials following. As Millennials are currently entering the life-cycle phase that Gen Xers have enjoyed over this period, the pace of improvement for Millennials could pick up over the next decade. However, similar to other generations that faced deep recessions, it is not easy to make up for those "lost" years, suggesting that Millennials may never reach the level of relative opportunity of previous generations. However, if economic conditions improve, Millennials could reach or surpass average living standards prior to what current projections suggest — 2034.

MSA-level analysis

Chart 5
MSA-level Millennial GOI



Source: BBVA Research / Census Bureau

Another important aspect of generational opportunity is identifying which metropolitan statistical areas (MSAs) provide the greatest potential for Millennials. To measure how attractiveness varies across the country, we narrowed our focus to those MSAs that have populations over 100,000. Using the same methodology as the generational index, we rank these MSAs in order of the opportunities they offer to Millennial residents.

Of the bottom five MSAs, three are in California — Bakersfield, Fresno, and Modesto, all of which suffered from unemployment rates above 9% in 2015, in addition to well below-average income levels for Millennials. The remaining two MSAs in the bottom five are McAllen and Gainesville, which have per capita income levels well below their respective state averages. For the cities ranked at the bottom, the key challenge to remain competitive in an increasingly global economy will be to attract high-skilled jobs and thus educated employees to their cities.

On the flip side, Millennials fare better than the U.S. average in 16 MSAs. Minneapolis, Minnesota takes the country's top spot, buoyed by its Millennial residents' educational attainment and participation rate in the labor force. Minneapolis also boasts one the lowest unemployment rates among the country's large MSAs — 3.4% in 2015. Des Moines, Omaha, Denver and Washington, DC round out the top five, having some of the same strengths as Minneapolis — high educational attainment coupled with strong labor force participation. Denver and DC can also claim above-average home values. Washington, DC was at the top of the list for Gen X and Boomers; the reason why it came in second for Millennials is likely that income levels for Gen X and Boomers are above the national average in DC, while they remain below average for Millennials.

Table 1
Millennials Opportunity Index MSA Ranking*

	Top 10		Bottom 10
1	Minneapolis, MN	94	Augusta, GA
2	Des Moines, IA	95	Stockton, CA
3	Omaha, NE	96	Lakeland, FL
4	Denver, CO	97	Winston-Salem, NC
5	Washington, DC	98	Riverside, CA
6	Boston, MA	99	Fresno, CA
7	San Francisco, CA	100	Gainesville, FL
8	San Jose, CA	101	McAllen, TX
9	Madison, WI	102	Bakersfield, CA
10	Seattle, WA	103	Modesto, CA

Source: BBVA Research / Census Bureau *includes MSAs with over 100,000 in population for which Census data was available

The remaining five MSAs in the top 10 — Boston, San Francisco, San Jose, Madison and Seattle — are closely linked to the technology sector and offer attractive urban lifestyles. California's representation in both the top and bottom is consistent with its size and diversity.

Bottom line

Millennials have made significant progress over the last 10 years, but lag other cohorts in terms of opportunity. While strong in their economic participation and educational attainment, income and homeownership remain areas where Millennials need to play catch-up. MSAs that are not well prepared to face the challenges of the knowledge economy will become less attractive and struggle to see their population and economies grow. Cities that excel in providing access to education, strong job markets and upward mobility, like Minneapolis, Denver and Seattle, will become magnets for Millennials. On a nationwide level, the state of the Millennial generation is improving, and ongoing economic recovery will help this generation reach unprecedented living standards.

References

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