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Economics Group

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Millennials in the Economy VI: Liabilities of Young People

The Millennial generation's median net worth fell markedly during the Great Recession. Although liabilities did in fact fall, the asset side of the balance sheet shrunk faster, leading to the overall decline.

Little Recovery in Net Worth

Not surprising, households under 35 have the lowest net worth of all age cohorts by a large margin (bottom chart). Similar to aggregate household net worth, Millennials' net worth in real terms has yet to recover from the Great Recession and remains near historic lows. This decline is particularly concerning because of the effect net worth has on young adults' ability to borrow. For young people, debt is an important way of financing their spending, as research suggests individuals consume based on expected lifetime income, which is likely higher than current income for Millennials.[1] Since the recession, both assets and liabilities have fallen. Assets have decreased more, however, causing the overall fall in net worth. In this report, we delve deeper into young people's liabilities.

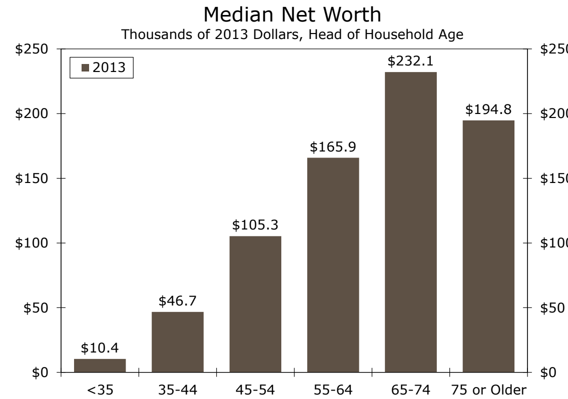
Installment Loans Only Increasing Component of Liabilities

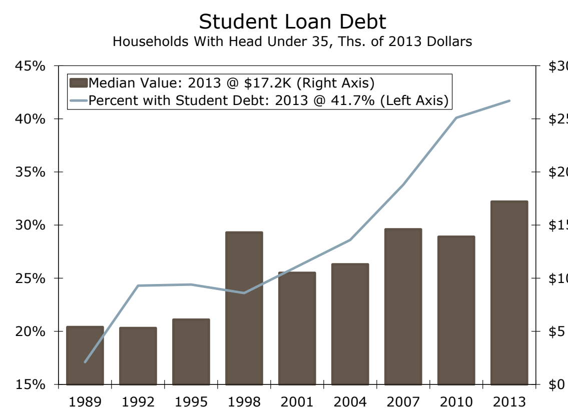
The Millennial generation's debt burden has fallen markedly since 2010, with the median value of debt for young families with liabilities decreasing $11,400 to $31,100. This also comes as the percentage of Millennials with mortgage debt has continued its downward trend that started around the housing bust. Access to credit is likely an issue, especially with no real recovery in net worth or income, although changing preferences could also be a cause. In addition, the Millennial generation has the highest leverage ratio, which means other forms of debt may have "crowded out" mortgages.

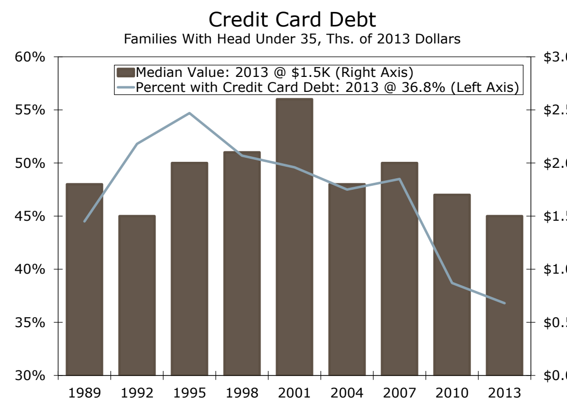
If this is the case, the culprit is likely installment debt. Millennials are the most likely to have installment debt and also have the highest median value of installment debt out of all the age cohorts. This is in large part a result of the widely discussed rise in student debt. The share of young people with student loan debt has risen to 41.7 percent with a median value of $17,200 (middle chart). Student debt, however, should be viewed as more of an investment. In theory, the cost of education should be offset by increases in expected future earnings. Loans for vehicles are also a significant portion of the installment loan category, as 35.2 percent of Millennials have vehicle installment debt. The value and percentage of households with auto loans fell during the recession and are only slightly above 2010 levels, possibly a result of the decline in the share of Millennials with a driver's license.

Revolving credit is the last major portion of young people's liabilities. Millennials are less burdened with credit card debt, with the prevalence and median balance both falling since the recession. Whether this is because of changing attitudes toward credit cards or lack of credit availability to more marginal borrowers is ambiguous, however.

Although liabilities of Millennials have fallen since the recession, the left side of the balance sheet has shrunk faster leading to the decline in net worth. In our next report, we will investigate the assets of Millennials.







Source: U.S. Department of Labor, Federal Reserve Board and Wells Fargo Securities, LLC

[1] See literature regarding Life-Cycle Hypothesis, originally proposed by Franco Modigliani.

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