

Millennials are growing up and settling down, which means they're headed toward a leadership role in providing support for US growth. But beyond being the next generation to shoulder the burden of demand creation for credit, housing, and consumer goods, millennials are deeply involved in reshaping the industries with which they're closely identified—particularly tech, ecommerce, and social media. As Emory W. (Sandy) Sanders, Jr., CFA, Senior Portfolio Manager explains, this may give them a uniquely powerful form of economic influence in the years ahead.

## The millennial consumer and the future of US growth

### Millennials are expecting

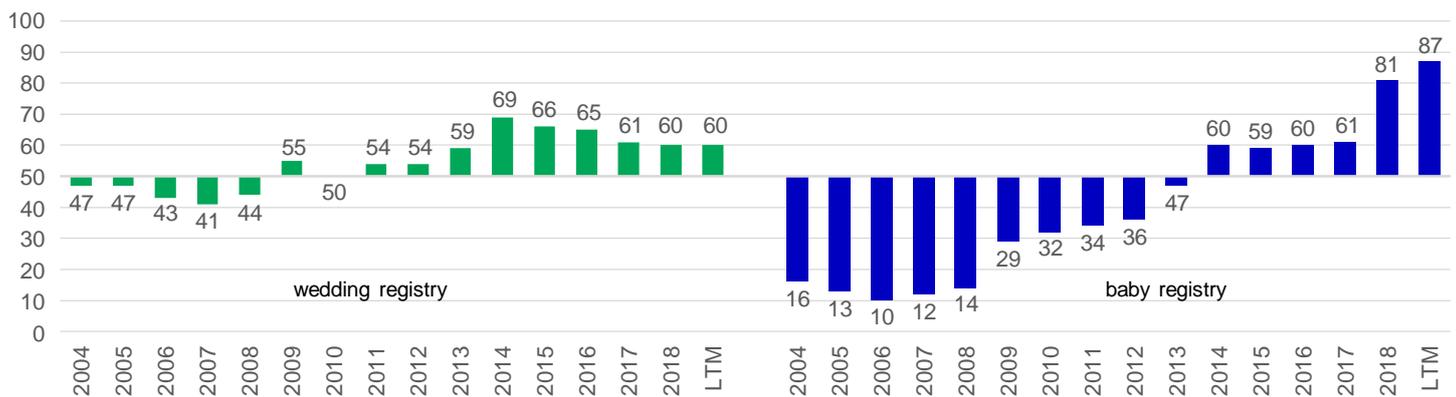
Born between 1981 and 1996, millennials recently surpassed the baby boomers as the largest living generational cohort in the United States.<sup>1</sup> But a question some market observers worry over is whether millennials, who are notoriously burdened with significant student loan debt,<sup>2</sup> are prepared to carry the productivity torch and drive sustainable

growth. In line with these concerns, data from the Pew Research Center for social and demographic trends suggests that millennials aren't as interested as older generations when it comes to getting married, starting families, or moving out of their parents' homes.<sup>3</sup>

That said, recent data suggests millennials are acting more and more like prior generations. For example, Google's search volume records show a declining interest in wedding registries and a spiking interest in baby registries—potentially an early harbinger of millennials becoming new parents and forming new households (Chart 1).

**Chart 1: Millennials' latest wish list? Baby gear**

Popularity of Google searches, 0-100 scale



Source: Google, Zelman & Associates, September 2019. LTM means last 12 months.

<sup>1</sup> "The US. Has an Edge on GDP Growth, and It's Thanks to Millennials," Forbes, May 16, 2019.

<sup>2</sup> "A Look At Millennial Student Debt," Forbes, October 3, 2019. <https://www.forbes.com/sites/wesleywhistle/2019/10/03/a-look-at-millennial-student-debt/#67f780a32437>.

<sup>3</sup> Pew Research Center, December 31, 2018. See [www.pewsocialtrends.org](http://www.pewsocialtrends.org).

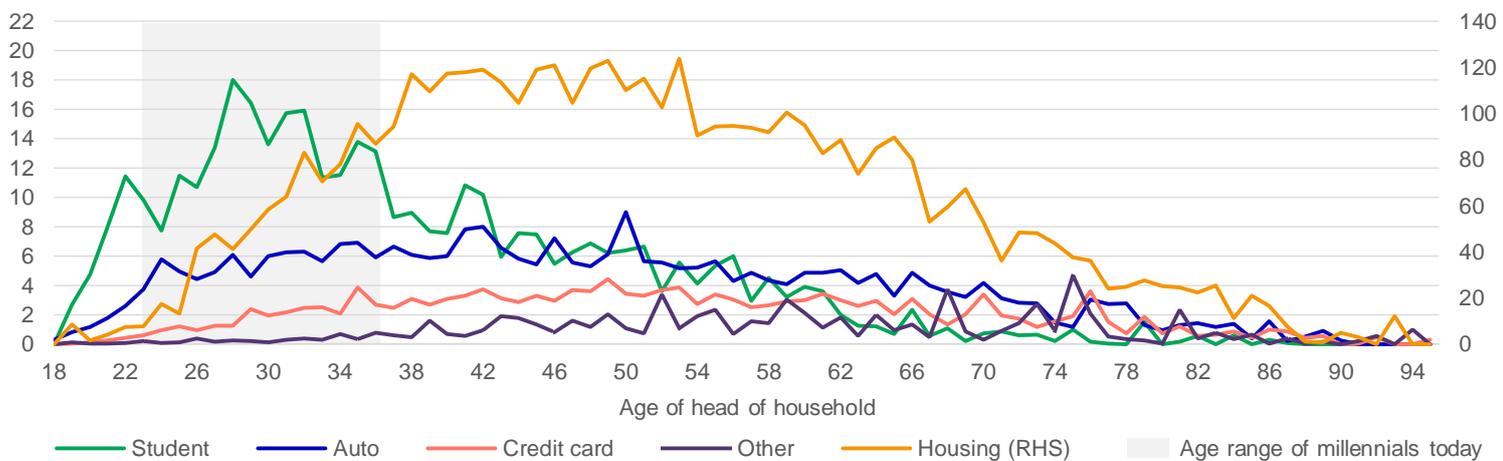
Another important signal emerges from more comprehensive loan data. Viewed holistically with other types of loans, many millennials are entering the zone where the trajectories of their debt are crossing (Chart 2), with student loans on a steep decline and mortgage debt on an equally steep incline. Millennials in their late 20s and early 30s may not only be expecting, they're also buying homes and retiring their student loans at a healthy rate.

## When it comes to credit demand, millennials are just getting started

Indeed, millennials are only just beginning to hit their borrowing stride. Whereas Generation X, the "slackers" of the 90s, gave lackluster support to loan growth in the wake of the global financial crisis of 2008, millennials are already adding more than every other living generation combined to the growth of net new consumer loans (Chart 3).

### Chart 2: Millennials are on a path to building equity

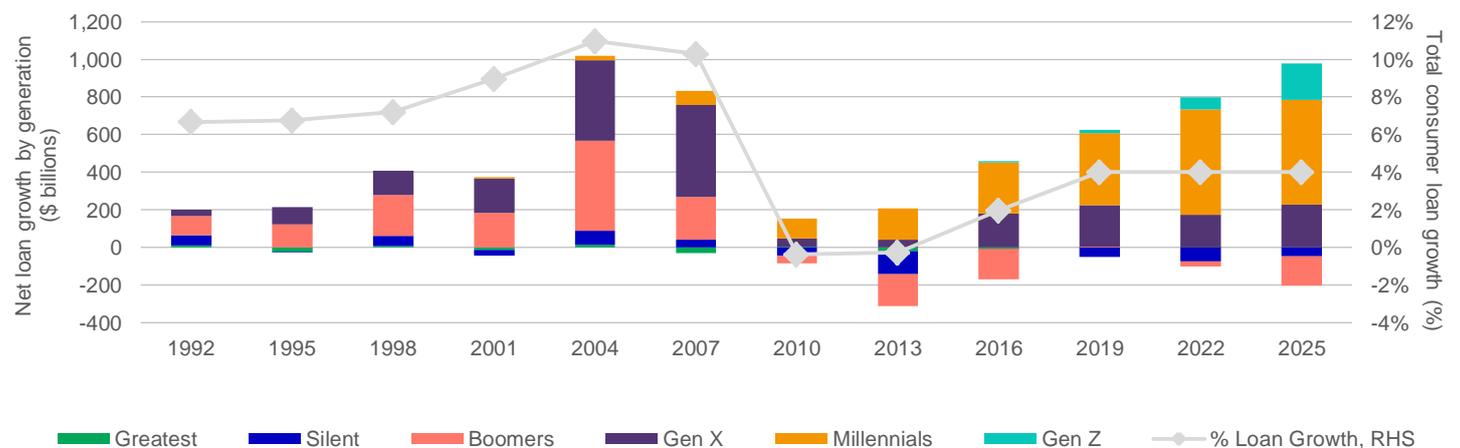
Average debt held by household (\$ thousands)



Source: Federal Reserve, Morgan Stanley Research. Data as of the 2016 Survey of Consumer Finances. Copyright 2019 Morgan Stanley.

### Chart 3: Millennials will drive loan growth for the foreseeable future

Net loan growth by generation (\$ billions) vs. total consumer loan growth (%)



Source: Federal Reserve, Morgan Stanley Research, as of 11 April 2019. Copyright 2019 Morgan Stanley.

All of these elements—from babies to big loans and first-time home purchases—are good for the US economy. Most obviously, they're good for US banks, whose balance sheets are, in our estimation, rock solid and able to support home and durable goods purchases, as well as business lending. After a decade of fortifying their business models, banks have invested in technology that millennials demand and stand ready to support a lengthy loan demand cycle. The maturation of millennials is also good for the housing sector, where purchases by millennials could build momentum in new housing starts, thereby providing a potential boost to construction, durable goods producers, home improvement retailers, and the myriad businesses in the economy that supply and service them.

Notably, as well, the types of debt referenced here are equity-producing forms of debt. Mortgages fuel long-term wealth creation in real assets while enabling higher rates of discretionary spending, which is foundational to US GDP growth. Student loans fund higher education, which leads to higher-paying jobs and rising wages, which is reflected in recent payroll data.<sup>4</sup> In any case, these types of loans aren't stifling consumers' ability to spend: Today's low interest rates mean household debt measured by debt service ratios is lower than in past cycles.<sup>5</sup> Assuming interest rates stay in the "lower for longer" range we've experienced for the last decade, it won't be surprising to see millennials driving new consumer loan demand for the next decade and longer.<sup>6</sup>

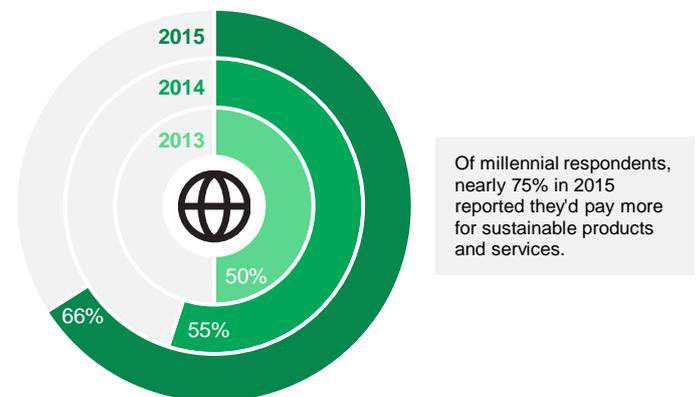
## Millennials and values-based consumption

This would all be a conventional story of generational change were it not for certain transformational effects that millennials are having in the communication services, information technology, and consumer discretionary sectors. Beyond adding to demand growth here, they're also influencing the sustainability of these sectors from within.

Millennials are thinking of their roles as consumers and employees in terms of values, particularly collective values that place an emphasis on sustainability (Chart 4). Data from a few years ago shows the steady upswing, for example, of consumer demand for sustainable products and services. This maturing generation is pushing companies, including their employers, to think hard about the environmental and social responsibility—or lack thereof—inherent in their business models.

### Chart 4: Consumers are willing to pay more for sustainable products and services

Based on global survey data (% of 30,000 consumer respondents)



Source: "The sustainability imperative: new insights on consumer expectations," Nielsen, October 2015.

Consider the cohort of young Amazon employees who encouraged America's biggest online retailer to commit to a lower-carbon future. In the wake of their activism, Amazon announced plans to go carbon-neutral by 2040.<sup>7</sup> Or consider efforts by Apple employees, who've found an activist CEO in Tim Cook, to build fair labor practices into their company's global supply chains and take a progressive stand on US immigration issues. Other examples include Alphabet's and Wayfair's millennials, who are part of a labor movement that's raising a loud call for ethical guidelines governing the sale of their companies' products and services.<sup>8</sup> Millennial employees are demanding, where previous generations were more passive, that their

<sup>4</sup> Bureau of Labor Statistics, September 18, 2019.

<sup>5</sup> Fundstrat, Bloomberg, FactSet, as of June 30, 2019.

<sup>6</sup> "In the Coming Youth Boom, Millennials Fuel Loan Growth; Gen Z Up for Grabs?" Morgan Stanley, April 11, 2019.

<sup>7</sup> "Amazon's climate pledge confirms the new power of employees," Quartz at Work, September 20, 2019. <https://qz.com/work/1712662/the-amazon-climate-pledge-is-a-victory-for-activist-employees/>.

<sup>8</sup> "Activist employees pose new labour relations threat to bosses," The Financial Times, July 3, 2019. <https://www.ft.com/content/c1167d4a-9cb5-11e9-b8ce-8b459ed04726>.

employers take a more sustainable approach to growth. They're demonstrating, as consumers, that values-based consumerism is a vital aspect of maintaining a competitive advantage.

Millennials are the first generation whose formative experiences as consumers have been heavily mediated by ecommerce and social media. But they're also the first generation to rapidly set new norms in these areas that have sometimes left entire industries struggling to catch up. In this way, the millennial consumer has an amplified growth impact, particularly when it comes to teaching their employers, the providers of their favorite brands, and basically any company with a digital presence that financial value only exists in a network of other values. We think that's good news for more than just company shareholders and short-term profits; it's a benefit for all contemporary and future stakeholders in the US economy's growth potential.

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