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FEATURE

What weighs on millennials' minds … and wallets?

Understanding how behavioral factors may be influencing millennials' lifestyle choices

Akrur Barua and Susan K. Hogan

Any analysis of US economic data today could be incomplete without exploring millennials. After all, this generation, comprising individuals born between 1980 and 1995 and numbering around 66 million, is a sizable part of the population and the labor market in the country.[1]

AS THE YEARS pass by, millennials' influence on the economy will likely only increase as their earnings rise over their life cycle, even as their diversity will likely influence society as well.[2] Many researchers and practitioners have been studying and tracking this sizable group.[3] To build on this existing research and also better understand the possible underlying reasons and decision-making biases driving millennials' choices, we draw from the behavioral science literature and combine it with current economic evidence about the generation's consumption trends. Based on these economic and behavioral insights, we provide some predictions about millennials' choices and behaviors to expect going forward.

Technology and millennials: Attached at the hip for life

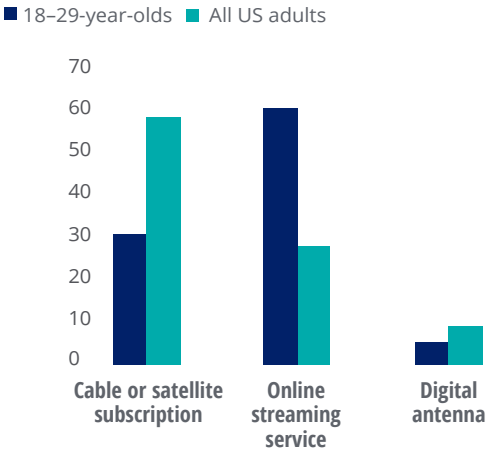
Smartphones and tablets, gadgets that we find difficult to live without, had hit the market before the end of the first decade of the new millennium.[4] Even before that, the internet was pervasive, serving as a platform for exchange of information and ideas. Consequently, millennials have been continually groomed in technology and technology-related innovations, such as gaming, streaming content, ridesharing, and social media, for the lion's share of their existence. Therefore, it is not likely surprising that a survey by Pew revealed that young adults are driving the popularity of online streaming content, with 61 percent of respondents in the 18–29 years cohort indicating they use online streaming services as the primary way they watch television, compared to only 31 percent for cable or satellite subscription, which is quite disproportionate from that of the entire adult population (figure 1).[5] Similarly, a Deloitte survey found that not only do millennials and Gen Z—those born just after millennials and into the early 21st century[6]—favor more online streaming content than other generations, but are also engaging in content streaming more frequently than other cohorts.[7] Further, these two generations also demonstrate a stronger tendency to use their smartphones for movie and television viewing, and gaming as compared to other cohorts.[8]

Along with greater utilization of technology for consumption of content and entertainment, millennials are also more likely to utilize technology as a purchase vehicle than older generations, as Deloitte's 2017 holiday survey revealed. Specifically,

FIGURE 1

Young people are driving the popularity of online streaming content

Share of the group that says it is the primary way they watch television



Source: Pew Research Center (based on a survey in August 2017); Deloitte Services LP economic analysis.

Gen Z and millennials intended to spend 61 percent and 58 percent, respectively, of their holiday budgets making purchases via online channels rather than in other store formats (figure 2).[9] Surveys such as these hint that younger cohorts are the key drivers of e-commerce growth, which accounted for close to 9.0 percent of total retail sales in 2017, up from just 3.4 percent 10 years back.[10]

This trend of utilization of technology and, in turn, technology-enabled spending is likely to continue for millennials (and young people, in general). After all, technology for millennials is perhaps viewed as a necessity—something their lives would be incomplete without—rather than something "nice to have." The decision-making bias explaining this likely persistence of technology in millennials' lives is known as the **endowment effect**, which suggests individuals have the tendency to overvalue something that they already possess.[11] Additionally, this cognitive bias suggests that these individuals are likely to expend more effort or resource to retain these items in their life as opposed to expending the same effort toward something that is not currently a part of their life.[12]

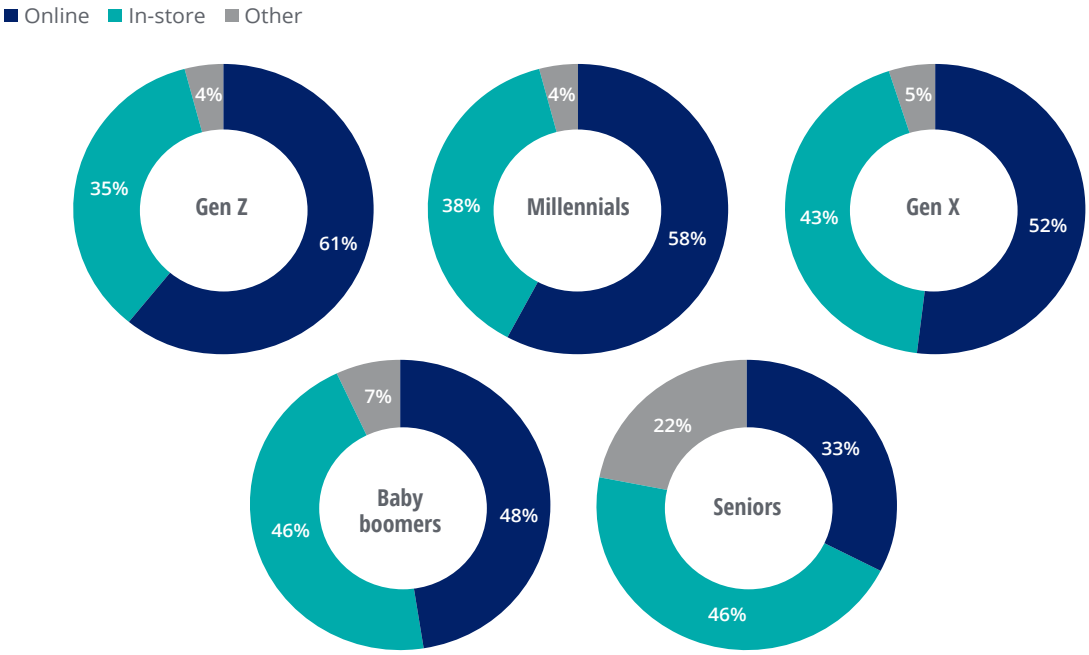
For millennials, product usage overshadows ownership

Given their high utilization of shared services such as Uber and Airbnb, millennials have been considered key drivers of the sharing economy.[13] As the name implies, a sharing economy provides shared services or collaborative consumption of products without asking of or imposing full ownership responsibility on any individual participant.[14] This active participation in shared services extends beyond transportation and vacation homes, to consumption behavior, as evidenced by data from the National Technology Readiness Survey (NTRS),

FIGURE 2

Millennials and Gen Z intended to spend more online during the 2017–2018 holiday season

Share of total holiday budget intended to be spent in different store types



Source: 2017 Deloitte holiday retail survey; Deloitte Services LP economic analysis.

which indicates that people in the age group of 18–34 years make up 49 percent of on-demand consumers.[15]

While this sharing economy trend is not solely happening with millennials, this focus on product use over acquisition by many millennials may also provide some possible insight into why homeownership rates for householders below 35 years of age fell from 41.3 percent in 2001 to 35.3 percent in 2017, a greater trend decrease than that for the overall population.[16] This homeownership data is consistent with mortgage data. According to the United States Federal Reserve's Survey of Consumer Finances, the share of households headed by those below 35 years having mortgages fell from 37.2 percent in 2007 to 28.1 percent in 2016.[17] In comparison, the decline in share for all households during this period was lesser: from 46.3 percent to 41.5 percent.[18]

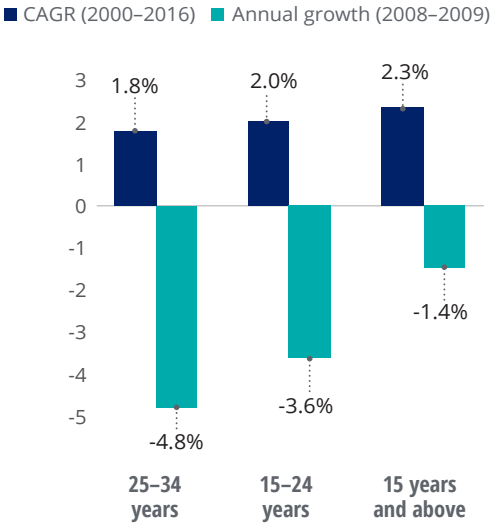
It would be simplistic, however, to assume that the decrease in homeownership is purely due to an affinity for product benefits over acquisition. A key situational factor to consider is the effect of the Great Recession on young people, especially millennials. While the economic downturn contributed to this homeownership rate decline overall,[19] the early timing of this experience in millennials' life and the effect it had on them may have a lot to do with not only millennials' ability to make big-ticket item and long-term commitment purchases, but also their willingness—or rather, aversion—toward making these purchases.[20]

A TALE OF TWO FACTORS: NOT ABLE TO MAKE BIG-TICKET PURCHASES VS. SIMPLY NOT WANTING TO

The disproportionate impact of the Great Recession appears to have had a significant impact on many millennials' economic ability to make big-ticket purchases such as homes or vehicles. As evidence, the peak of unemployment during the downturn for 16- to 24-year-olds (19.5 percent) and 25- to 34-year-olds (10.6 percent) was higher than that for the entire labor force (10.0 percent).[21] While the labor market has revived since then, the recovery was relatively slower (or more volatile) for younger cohorts;[22] incomes for younger cohorts were also impacted more by the Great Recession (figure 3).[23]

FIGURE 3

Growth in median incomes for young people have fallen behind that of others



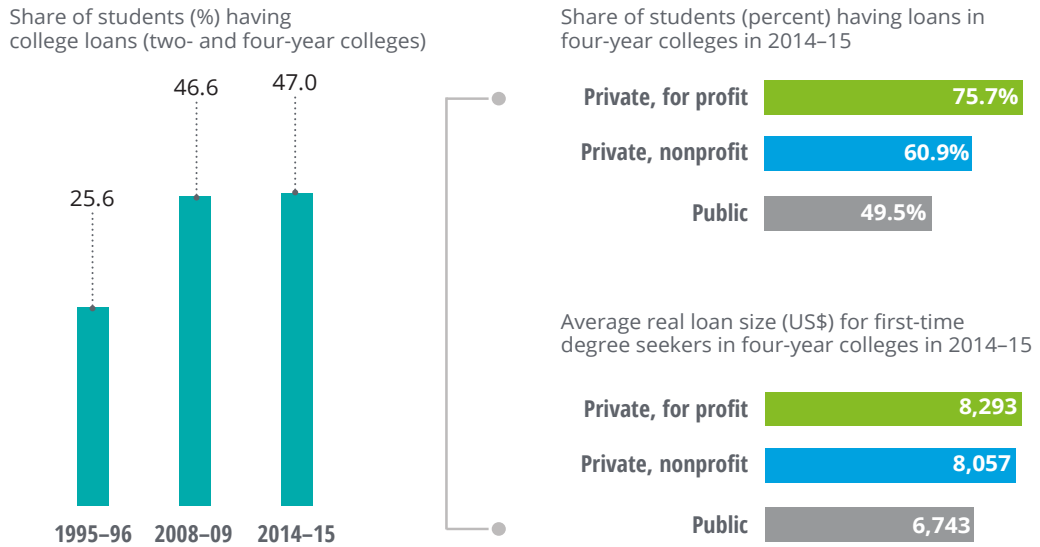
Note: CAGR stands for compound annual growth rate.

Source: Haver Analytics; Deloitte Services LP economic analysis.

Another characteristic of the millennial generation is the surge in student debt. More millennials have taken on student debt than previous generations. For example, during the 1995–1996 school year, the approximate midpoint of when Gen Xers were in college, 25.6 percent of all undergraduates in two- and four-year colleges had student loans.[24] By the 2008–2009 school year, the percentage had grown to 46.6 percent and then further to 47.0 percent by 2014–2015 (the latest school year for which data is available).[25] These figures were much higher at four-year institutions (figure 4). Not only are more students taking out student loans, but the size of the loans themselves is large (figure 4) and has been growing rapidly. Data available for school years between 2000–2001 and 2014–2015 reveals that the average size of student loans in real terms in public institutions (two-year and four-year programs) went up by 51.5 percent during this period; the corresponding rise for private nonprofit and

FIGURE 4

Millennials bear the burden of higher student debt than other cohorts



Source: Deloitte Services LP analysis of data from National Center for Education Statistics, *Digest of Education Statistics*, 2015, table 331.20.

private for-profit institutions was 46.3 percent and 6.0 percent, respectively.[26] These two factors combined—relatively slower income growth and high student debt—are often play into millennials' ability to make big-ticket purchases.

Even for millennials who can make a big-ticket purchase such as a home, psychologically, the behavioral bias of **loss aversion**—that is, the greater propensity to avoid losses at the expense of missing out on similar or even slightly greater gains—may play a role in their decision-making.[27] Thus, even though the US economy is currently on a healthy trajectory,[28] it may be worth exploring further whether the Great Recession had a disproportionate impact on millennials—both economically and psychologically—due to its timing.

Still influenced by influences, but they also like to influence: Behold the "review economy"

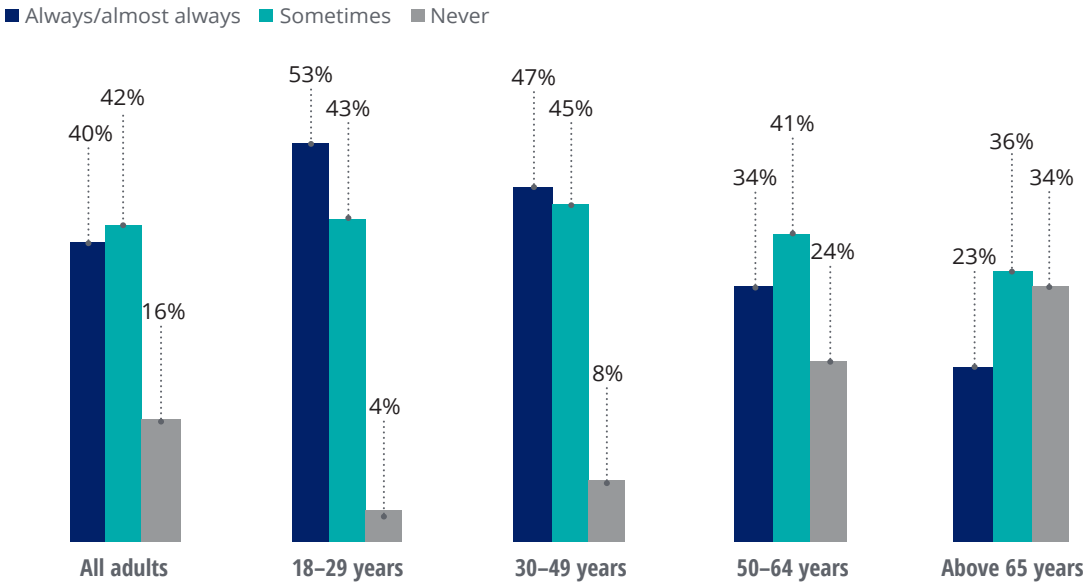
Apart from being the generation influencing the rise of the sharing economy, millennials could also be thought of as the cause and impetus for the "review economy." Be it a restaurant or a date, people nowadays are quick to check and offer reviews. And young people are trailblazers of this trend. For example, in their shopping decisions, 53 percent of 18–29-year-olds have always or almost always read online reviews before making a purchasing decision; the comparative figure for the entire adult population is lower (figure 5).[29] This cognitive tendency to look toward the behavior of others to guide one's own behavior is known as **social proof**.[30] And while this "what are others doing" tendency is not a new phenomenon, the ease and transparency with which technology—something that millennials are using more often—provides this real-time data on how peers view (say) restaurants or movies further helps feed the social proof theory. The role of online reviews for social proof is a trend that is on the upswing and we expect it is not going away anytime soon.[31]

Being more in tune with technology can create a natural affinity for millennials and other young people to seek virtual sources for social proof. Also, it is much easier to check reviews such as

FIGURE 5

Young adults check online reviews more than others before a first-time spending decision

Share of those who say that they have read ratings or reviews posted by other people when buying something for the first time



Source: Pew Research Center (based on a survey in November and December 2015); Deloitte Services LP economic analysis.

"most popular" or "most highly rated." These help millennials cut through the myriad options that present themselves for just about any decision. A wide variety of options may have the adverse effect of causing decision fatigue—or making decisions harder—due to a phenomenon known as **choice overload**.[32] Thus, these review scores can help individuals avoid choice overload, by providing an easy, readily apparent solution, or the **default option**.[33] In terms of what venues millennials look to for these reviews, evidence suggests, unsurprisingly, social media is the forum they increasingly seem to favor,[34] with 47 percent millennial consumers using social media during their shopping journey compared to 19 percent non-millennials.[35]

Debunking some millennial myths: Immediate gratification and experience mongers

An often-stated characteristic of millennials' spending behavior is "immediate gratification."[36] Such a pattern, if it exists, is closely associated with

the concept of **present bias**, which refers to the tendency of focusing more on a payoff closer to the present time when considering two future events.[37] For example, due to present bias, smokers overestimate their self-control in the future and hence, resolve to "quit tomorrow" rather than today.[38] Similarly, present bias forces people to discount their future needs and hence, spend more than what is optimal in the short term; consequently, they end up saving less for the future.[39]

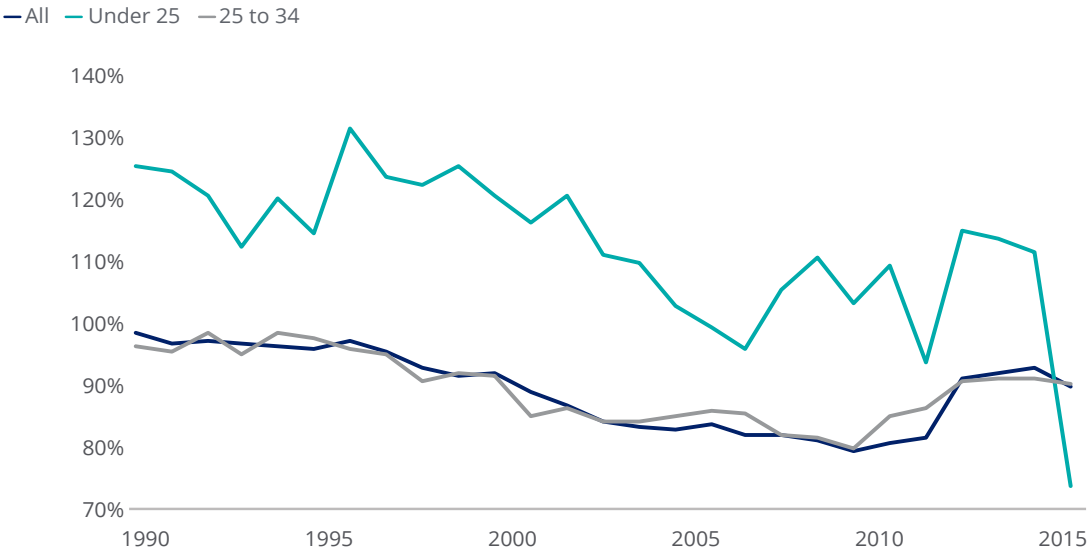
Overall, is it truly the case that millennials exhibit greater present bias in their spending decisions than other generations? While data on savings for millennials is not available, the Bureau of Labor Statistics offers insights on average income and expenditure by age group in its Survey of Consumer Expenditure (SCE).[40] As it turns out, the ratio of average expenditure to income for 25–34-year-olds—the closest proxy for millennials—was still low in 2016 (latest available data) compared to that for previous generations of young people, for instance, in the 1990s (figure 6). Even though this ratio has picked up a bit since 2011, this is likely due to improved economic conditions after the Great Recession—the ratio for the entire population displays a similar trend—than any spurt in millennial present bias. The data also reveals that younger cohorts are spending more on health care, insurance, pensions as part of their total expenditure—which suggests millennials are saving for tomorrow, rather than just spending on today.[41]

Along the same lines, there has been a lot of attention to the idea that millennials are **experience seekers**; that is, their immediate gratification may come in the form of spending on "experiences" such as entertainment, eating out, and travel—goods and services consumed immediately, rather than, say, durable goods that last for a longer time.[42] However, while millennials may state that they *prefer* experiences such as travel over expenditures such as paying off debt,[43] the actual spending data from both SCE data and a 2017 Deloitte study in 2017

FIGURE 6

Young people are not indulging in any present bias binge

Ratio of average expenditure to income for the overall population and young people

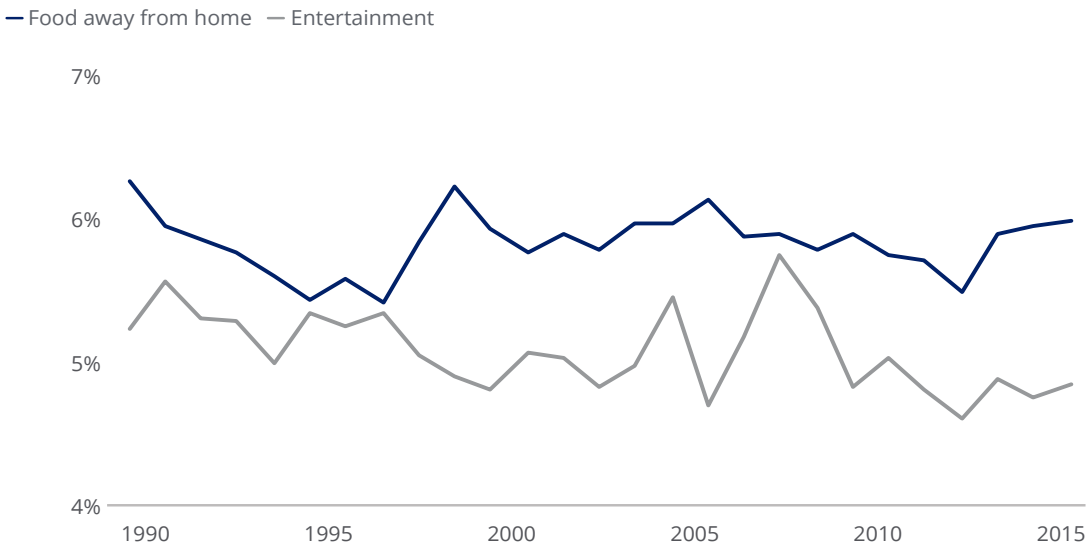


Source: Haver Analytics; Deloitte Services LP economic analysis.

FIGURE 7

Shares of experiences in average in spending is not going up for 24–34-year-olds

Shares of experiences in average expenditure of 25–34-year-olds



Source: Haver Analytics; Deloitte Services LP economic analysis.

suggests that what they are saying they *prefer* is not what they are doing.[44] Similarly, consumers who are 25–34 years old, for example, are actually not spending more on food away from home—a proxy for eating out—and entertainment relative to total expenditure than previous generations of young people (figure 7)—a pattern no different from the ones for 35–44-year-olds and 45–54-year-olds.[45]

The millennial dollar question: What to expect from millennials

From our analysis, it is evident that a mix of factors—technological, economic, situational, and behavioral—have shaped millennials' minds and spending decisions. Table 1 provides an overview of some of the behavioral biases at play and implications and predictions for what to potentially expect from this generation moving forward.

Even in a world molded by a never-ending stream of information and technological innovations, it is likely inevitable that some behavioral biases creep into millennial decision-making. Combined with economic factors, behavioral factors will likely continue to shape millennials' economic and social choices such as spending, saving, debt leverage, and housing. In addition, their choices will likely continue to be influenced by their beliefs and value systems and the situational events that continue to shape our landscape, a topic that we have only scratched the surface of and one that deserves further attention and is worth keeping an eye on.

TABLE 1

Behavioral factors influencing millennial spending behavior, implications, and predictions

Behavioral concept	Relevant context	Potential implications/ predictions
Endowment effect The tendency to overvalue something one already possesses	Ubiquitous and early presence of technology in a millennial's life	Utilization, ownership, and spending on technology are likely to remain millennial priorities and will remain at current or increased levels into the future*
Loss aversion The propensity to avoid bad outcomes to a greater extent than achieving positive outcomes	Having experienced (and watched their families and friends suffer) the Great Recession, millennials may have a heightened sense of loss aversion, which may explain their aversion to making significantly high-valued purchases vs. merely enjoying the benefits of those purchases	If the economy continues to improve, existing debts (e.g., student loans) get paid off (or somewhat paid off), and the salience and recency of the recession fade into memory, expect to see millennials slowly taking on more debt by making significant purchases (e.g., houses, cars)
Social proof The tendency to look toward the behavior of others to guide one's own behavior **Default option** An easy, readily apparent option that is chosen as a solution unless active intervention or effort occurs	Millennials, like other cohorts, look to the behavior of others to guide their decisions; however, technology plays an integral part here through virtual vehicles such as online reviews and social media	Spending decisions are likely to continue to be guided by online reviews as these "most popular" or "highest rated" reviews not only help to validate decisions but also cut through clutter (e.g., choice overload) and provide a logical default option during the decision-making process
Present bias Placing more value on present vs. future needs and outcomes	Tendency to overweight present desires at the expense of satisfying future needs	While millennials may have a need for information now, their spending vs. savings behavior suggests they are no more (or less) susceptible to sacrificing their future for their present than past generations or cohorts

* Barring any unforeseen situational events or disruptive innovations that overtake technology.

Source: Deloitte analysis.

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