

In-Depth Research on Consumer Needs

November 2016

MILLENNIALS GOT HAMMERED

Millennials are experiencing economic hardship worse than 2 previous generations at the same age and their access to traditional credit has been severely limited

(Millennials will represent 32% of adults in 2016, increasing to 41% by 2022)

“Millennials are the first to have higher levels of student loan debt, poverty and unemployment and lower levels of wealth and personal income than their 2 immediately preceding generations had at the same stage of their life cycles,” per a summary statement in the “Economic Hardship” section of a research study by the Pew Research Center released in March 2014 (see link below).

The following factors unfairly damaged the credit scores of Millennials by adversely impacting 80% of their FICO scoring attributes:

- The first wave of Millennials became adults in 1999, which coincides with the beginning of the longest decline in Median Household Income and the “Labor Force Participation Rate” in the modern era (see separate analysis and graph).
- The Great Recession hit in 2008 and GDP growth has been below 3% for 10 years in a row.
- In 2008, banks began issuing fewer and smaller credit lines. Higher turn-downs resulted in shorter credit histories and smaller credit lines resulted in higher usage, and both of these factors have the effect of lowering credit scores.
- A law passed in 2009 requires adults under 21 to obtain a co-signor that is 21 or older. This has severely reduced the “length of credit history” factor used to compute FICO scores.

Source: <http://www.pewsocialtrends.org/2014/03/07/millennials-in-adulthood/>

~50% of AMERICANS ARE SHORT ON CASH AND CREDIT

“Economic challenges remain for a significant portion of the population” many years after the Great Recession was one of the primary conclusions of the *“Report on the Economic Well-Being of US Households in 2013”* published by the Federal Reserve Board (p33).

Source: <http://www.federalreserve.gov/econresdata/2013-report-economic-well-being-us-households-201407.pdf>

This Federal Reserve report also contained the following data on liquidity, credit & spending:

“Spending Money” - A Lack of Savings & Available Credit was reported by ~50% of respondents.

- 52% had Near Zero Savings - Not enough savings or available credit to pay an unexpected bill for \$400 (p3). A more recent survey by the University of Chicago (AP-NORC) in 2016 reported that 64% of Americans could not pay for an unexpected bill for \$1,000.
- Only 39% had enough savings to cover expenses for 3 months (p3), leaving 61% “on the brink.”

Limited Access to Credit (Purchasing Power)

- **Max’d out Credit Cards** - 43% of credit card holders are revolving their balances (p 16).
- **52% Not Qualified for New Credit** - 33% turned down + **19% did not bother to apply** (p 2).

Spending Cuts - *due to the Great Recession, student loans and unexpected outlays for health care*

- 42% reported *Delays in Major Spending* – since the Great Recession began (p1).
- 25% had Student Loans and 50% of them cut spending to pay down debt (p33).
- 25% cut spending to pay major, out-of-pocket health care costs (p 31).

WAGES *stagnant to declining for 16 years*

Median Household Income (adjusted for inflation) actually decreased by 8.7% from 1999 to 2013 representing a decrease of \$413 per month or \$95 per week. Thus, wages are not keeping up with inflation, which means fewer purchases unless credit is available, and 53% of adults don’t qualify. This long term decline in disposable income has eaten away at the purchasing power of many Americans.

Source: <http://www.census.gov/library/publications/2015/demo/p60-252.html>

UNEMPLOYMENT *worse than publicized*

The most highly publicized of 6 unemployment rates computed by the US Dept of Labor is a “Big Lie” was the headline of a 2/3/15 article published by the highly respected Gallup group.

On the news, we commonly hear that the “unemployment rate” dropped from 9% in January 2009, near the beginning of the Great Recession, to less than 5% in 2016, thus implying that 4% more Americans got jobs since the Great Recession. Unfortunately, this is a totally misleading statistic. The more relevant “Labor Force Participation Rate” (LFPR) reveals the truth that 3.1% **fewer** Americans have jobs since 2008, a decrease from 65.7% of adults with jobs in January 2009 to 62.6% in 2016. Over the last 16 years, starting in the year 2000, the Labor Force Participation Rate fell 4.4% from 67.3% in 2000 to 62.9% in 2016 and this decline helped cause a decrease in cash and available credit on credit cards.

Why is the “Official” unemployment rate so misleading? Because it *does not include* those who are out-of-work for a long period, or those who have stopped seeking employment for 4 weeks or longer. During long periods where a growing number of Americans are technically defined by the Census as having dropped out of the labor force, the simple math of fractions forces the unemployment rate to indicate a false positive.

Sources: <http://www.gallup.com/opinion/chairman/181469/big-lie-unemployment.aspx>
<https://research.stlouisfed.org/fred2/series/CIVPART>

OUTLOOK FOR EMPLOYMENT *will be slow to improve*

Potential hold backs to improvements in employment were touted by Janet Yellin who chairs the Board of Governors of the Federal Reserve System; citing “significant structural factors” in our economy & workforce in her 8/22/14 speech (p 4). These “structural factors” are worse than cyclical factors because they are fairly permanent and not likely to improve during economic upturns. Examples include an aging workforce, a growing unskilled workforce and rapidly changing technology that results in the creation of fewer new jobs and a reduction in existing jobs that require lower to middle level skills. These combined factors make it **hard to improve the “mismatch” between the skills of our workforce and the skills required by available jobs. This “mismatch” pushes what would be U.S. jobs to foreign countries**, because we are in the age of a Global Economy.

Source: www.federalreserve.gov/newsevents/speech/yellen20140822a.pdf

Janet Yellin’s warning is repeated in a well-documented business article that employs 3 of the 6 unemployment stats provided by the U.S. Dept of Labor to support the following conclusion: **“Our economy is in the midst of a massive structural change”** that is causing **“an ongoing economic weakness far deeper than the result of a business cycle downturn.”** “Far deeper” in this context refers to the fairly permanent impact of structural changes, which take a long time to improve.

Source: <http://www.financialsense.com/contributors/doug-short/charts-reveal-u-s-economy-undergoing-massive-structural-change>

A 2013 study by the US Chamber of Commerce Foundation entitled “Job Skills Training Network” discusses the need to improve the shortfall of upper level job skills through Career Technical Education (CTE). From 1990 to 2009, high school students earned 25% fewer credits in CTE or Occupational Education courses. Also, of all the high schools in the US, only 3.7% were considered CTE or vocational schools in 2008. Employers reported 25% more unfilled job openings over the 4 years from 2010-2013.

Source: <https://www.uschamberfoundation.org/>

INCREASING HEALTH CARE COSTS *causes decrease in purchasing power*

Many more Americans experienced an increase in their cost of health care plans in 2015 when the “employer mandate” became effective. The reason this new law is so impactful is that employer sponsored plans represent 80% of all health care plans.

Source: <http://www.ncsl.org/research/health/health-insurance-premiums.aspx>

Visit Solutions4Merchants.com to Contact Us about Innovative Solutions to Lift Sales by 8% or More