Millennial Generation – Room for Growth or a Dud Investment?

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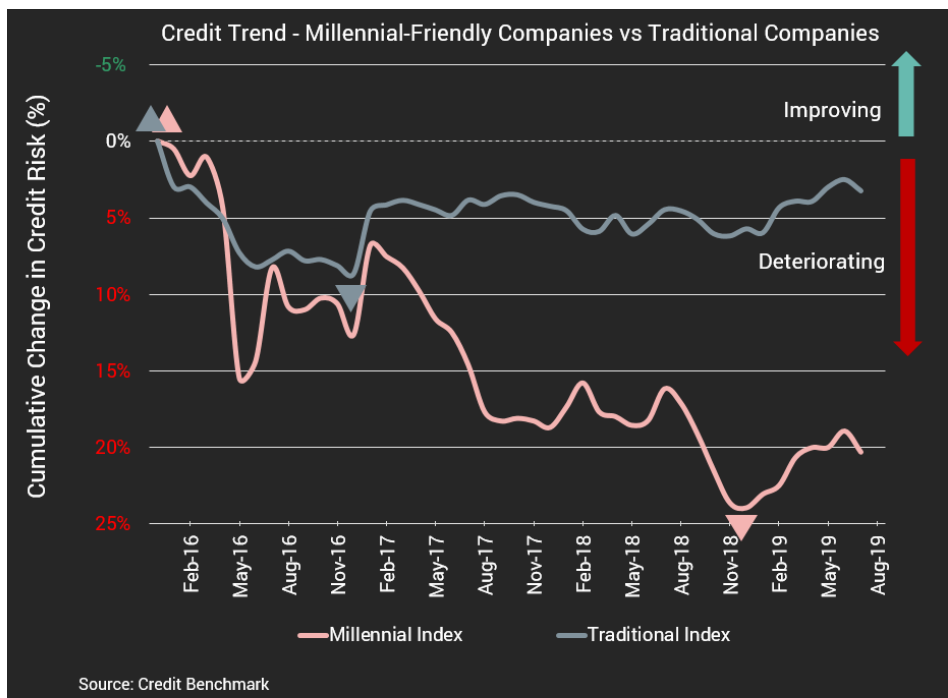
The millennial consumer is still something of an enigma to the corporate world, but clichés regarding the demographics' tastes, lifestyles and purchasing habits are well known. Considered flighty and non-committal, home ownership rates for millennials are dropping, the average age of marriage is rising, and the generation is travelling more than their elders did. Added to this is a stereotype of consumer frivolity (an Australian real estate investor made headlines in 2017 for claiming millennials could more easily get on the property ladder if they stopped wasting money on avocado toast). One thing that businesses are sure of is the importance of understanding and capturing the market share of this divisive generation, with millennials due to account for three-quarters of the US workforce by 2030.

The private investment sector has its sights set on the 2bn-strong demographic, which will inevitably grow into the dominant base of wealth as earlier generations retire. But capturing the tastes of this group is also fundamental to crafting profitable investment products, and various funds have been created to specifically target 'millennial-friendly' companies. The Indxx Millennials Thematic index is designed to track the performance of companies that cater to this generation, and when compared to the S&P500, it has shown to consistently outperform the more traditional index in the previous 2+ years.

But are millennially-focused companies a good credit prospect? Credit Benchmark, using consensus credit data collected from leading financial institutions, have created an index of businesses that cater to youthful consumers, represented mainly via Consumer Services (47%), Technology (23%) and Consumer Goods (18%) companies, with Financials, Industrials and Telecommunications making up the remaining 12%. Most of these companies are US-based (77%) or UK-based (15%). Included in the sample are well-known apparel retailers, food and beverage providers, social media and tech companies, and travel industry brands. We have contrasted this index with a comparative representative sample of US500 companies.



While both indices have seen deterioration in the past 2-3 years, the millennially-focused group has seen a much deeper drop (24% vs 8% at their respective lows), and a more turbulent overall trend than the traditional companies. There may be respite on the horizon, with the millennial companies seeing a trend of credit quality improvement since the start of the year, though last month saw another dip. This jump is possibly related to recent acceleration in wage growth, currently at its fastest pace since mid-2008 (though the average wage, adjusted for inflation, is still lower than it was more than 11 years ago). But with an obvious disparity at play, are businesses therefore unwise to devote their marketing spend on capturing the minds and wallets of young consumers?

The answer may be more down to simple economics than cultural paradigms – in the words of Kasey Lobaugh, Deloitte's chief innovation officer for retail and distribution, "people behave more like their income than their age". A recent study from the consultancy's Centre for Consumer Insight revealed that the average net worth of consumers under 35 has dropped by 35% in the past 20 years. In other words, millennials are far worse off financially than previous generations, and this divide is even more marked in low-income earning groups.

And to counter rhetoric about spendthrift tendencies, the Deloitte study shows that between 1997 and 2017, discretionary costs have remained much the same for the 24-35 age group, with food away from home, entertainment and alcohol costs actually dropping slightly from 12% to 11% of wallet share in this time. However, non-discretionary costs such as rent, health care and education have risen from 12% to 17% in the same time period. Millennials simply have less spare cash to spend. Interestingly, percentage of income spent on apparel has dropped from 5% to 2% in the past 20 years, but product volume for the industry has actually increased. In an era of fast fashion and market forces driving down unit costs, retailers are producing more than ever and making less profit – which goes some way to explain the current crisis the industry finds itself in.

Finally, millennials are a more diverse group than any generation before them, and access to the internet provides consumers with multiple competitive options to choose from. The US population has dropped from a 75% White dominance amongst baby boomers, to now a 56% representation amongst millennials. The Latino population has grown from 9% to 21%. Consumers are thus more fragmented; divided into more distinct and numerous subsets who have more specific needs and access to a greater range of options. Companies looking to secure the millennial spend will be wise to consider the factors that make this generation different to, and potentially less lucrative than their predecessors.

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